Networks for the Future

BCE Inc.
1997 Annual Report

Networks for the Future

Our lives are increasingly defined by the degree to which we are connected to the people, places and services that constitute our world. For BCE companies, that measure of connectedness is enabled by networks; networks that are many in number and varied in nature... traditional networks of technology providing the physical connections that are the focus of our business... networks of people, our customers and employees, working together to bring innovation to a time-honoured industry... networks that circle the planet to bring us all global reach... and finally, networks that link us to the communities we serve where we act on our commitment to social and economic well-being. These and many more are our networks for the future.

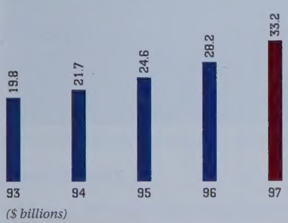
BCE's telecommunications interests are among the most comprehensive of any company in the world, spanning the industry, from telephone service to satellite television, from equipment manufacturing to systems integration, and from telephone directories to the Internet. We are Canada's global communications company.

Financial Highlights

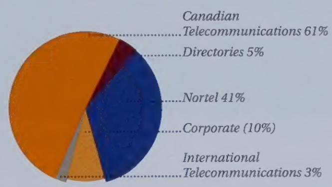
($ millions, except per share amounts)	**1997**	1996	1995
Revenues	**33,191**	28,167	24,624
Net earnings (loss) before extraordinary item	**1,414**	1,152	782
after extraordinary item	**(1,536)**	1,152	782
Earnings (loss) per common share before extraordinary item[1]	**2.11**	1.70	1.12
after extraordinary item[1]	**(2.53)**	1.70	1.12
Operating cash flow per common share[1,2]	**8.78**	7.37	6.05
EBITDA[3]	**8,054**	6,965	5,987
Return on average common equity (%)	**12.7**[4]	10.6	7.0

[1] Adjusted to reflect two-for-one stock split effective May 14, 1997.
[2] After payment of preferred dividends.
[3] Earnings before interest, taxes, depreciation and amortization.
[4] Before extraordinary item.

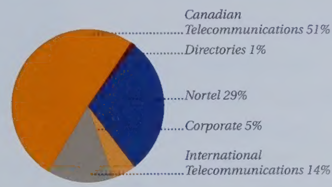
Revenues



Contributions to BCE net earnings before extraordinary item

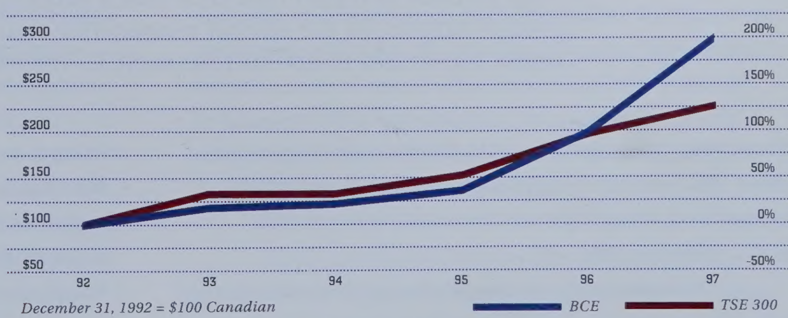


Investments at equity



Market capitalization

Shareholders' total return

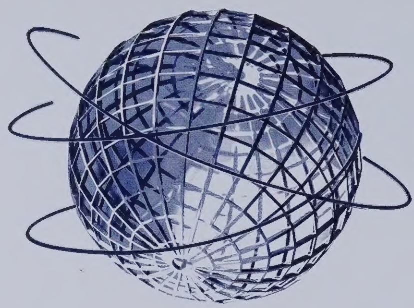


The compound annual return on BCE common shares during the five-year period ending December 31, 1997, assuming reinvestment of all dividends, was 24.3% compared to a 17.5% return on the Toronto Stock Exchange 300.

Price range of common shares[5]

	1997			1996		
	High	Low	Close	High	Low	Close
Toronto Stock Exchange ($)	**48.75**	**30.78**	**47.65**	34.48	23.50	32.65
NYSE Consolidated tape ($US)	**34**	**22**	**$33\frac{5}{16}$**	$25\frac{3}{8}$	$17\frac{1}{4}$	$23\frac{7}{8}$

[5] Adjusted to reflect two-for-one stock split effective May 14, 1997.



Leadership for the Future

The BCE group represents a unique combination of telecommunications capabilities and is the only Canadian-owned company with the size and depth to participate across the board in the global telecom industry. We must strive to continue to be Canada's leading innovator in telecommunications, and in 1997, considerable progress was made in this direction.

Message to Shareholders

I am pleased to report that BCE had a successful 1997, outperforming growth targets for the second consecutive year. Each operating group made important contributions to BCE's record performance.

Net earnings from operations of $1.41 billion were 23 per cent above 1996 earnings of $1.15 billion. Revenues also reached a record level, rising 18 per cent from $28.2 billion in 1996 to $33.2 billion in 1997.

These results do not take into account the extraordinary non-cash charge the company recorded in the fourth quarter of 1997, as part of a change in accounting practices. Including the after-tax extraordinary charge of $2.9 billion, the company reported a net loss of $1.5 billion. Details of this charge can be found in the Management's Discussion and Analysis section which begins on page 21 of this report.

Looking to our individual operating companies:

- **Bell Canada** (excluding directory operations) achieved earnings applicable to common shares of $801 million, significantly ahead of 1996;
- **Nortel** contributed $581 million, up 34 per cent over 1996, with record orders, revenues and earnings for the third consecutive year;
- **BCE Mobile's** contribution, driven by continued subscriber growth, was $45 million;
- **Directories**, buoyed by improved earnings from international operations, contributed $70 million in 1997, an increase of 25 per cent over 1996 results; and
- **International Telecommunications**, including the now publicly-traded Bell Canada International, contributed $49 million to BCE's earnings.

Full Competition for Bell

In May, 1997, the Canadian Radio-television and Telecommunications Commission (CRTC) unveiled its framework for competition in the local services marketplace, including a price cap regime to replace rate of return regulation. Under this system, which became effective January 1, 1998, the average price of a basket of services is subject to an upper limit or "cap" that will be reduced over time. Unlike rate of return regulation, price caps are designed to imitate a competitive market by controlling prices, not profit.

In December, the CRTC announced that it would no longer regulate Bell's voice long distance services and would only partially regulate private line services. These changes will give Bell greater flexibility in serving customers and will put Bell on a more equal footing with competitors.

And finally on the regulatory front, Bell Canada can now re-sell certain Bell Mobility products in its Phonecenter stores, just as they sell ExpressVu direct-to-home satellite service. This positive development will further enable the BCE group to combine its collective capabilities for the benefit and convenience of customers.

While some regulatory issues continue to impede the competitive environment, we are encouraged by the recent CRTC decisions which are evidence that the deregulation of the communications industry is progressing toward a fully competitive marketplace. I am confident that with greater regulatory freedom, Bell will bring its considerable marketing and technological abilities to bear in meeting competitive challenges.

Networks for the Future

The BCE group represents a unique combination of telecommunications capabilities and is the only Canadian-owned company with the size and depth to participate across the board in the global telecom industry. We must strive to continue to be Canada's leading innovator in telecommunications, and in 1997, considerable progress was once again made in this direction.

Bell's strong operating performance was paralleled by a number of new initiatives that will further cement its position as Canada's number one provider of telecommunications services.

- In September, Bell announced the creation of Bell Emergis – a software and applications development business. Bell Emergis will work with customers and suppliers to develop the services of the future that will drive the growth of the Internet and of entirely new capabilities in telecommunications networks.

Jean C. Monty and L.R. Wilson

The constant key to success continues to be mastery of the fundamentals – a clear business vision backed by innovation, efficiency and a commitment to the customer all supported by talented people.

- Bell launched an ambitious $200 million, four-year local service improvement program that will extend local calling areas and ensure customers can enjoy similar-quality telecommunications service no matter where they choose to live or work.
- In January of 1998, Bell unveiled a 10-cents-a-minute long distance plan – FirstRate – for consumer calls to anywhere in Canada during evenings and weekends.

Nortel's positive results were demonstrated by the 23 per cent revenue growth and a 34 per cent growth in earnings. Most lines of business showed considerable momentum over 1996, for example, revenue from wireless networks grew by 54 per cent; broadband networks by 35 per cent and public carrier networks by 20 per cent.

Today, wireless is one of Nortel's highest potential businesses given the tremendous worldwide growth in wireless communications and Nortel's strong position in the market – number one in fixed wireless access and number three in wireless infrastructures. This is especially impressive since Nortel entered the wireless business only seven years ago.

The company's position in wireless was further solidified with the purchase of Broadband Networks Inc., of Winnipeg, a leader in the design and manufacture of fixed broadband wireless communications networks.

In late 1997, Nortel announced a new strategic thrust to make expertise on the Internet a core competency. To this end, the company has turned its formidable research and development capability to the challenge of delivering "webtone." The goal is to make the Internet as easy to access as the voice network; as fast, reliable and secure and as much a part of our everyday lives as dialtone is today.

Nortel has proven time and again over the past several years its capacity to innovate, to be aggressive and to be remarkably nimble for a global company of 73,000 employees. Its continued commitment to research and development, spending nearly $3 billion in 1997, will help ensure Nortel's prominent position in the global marketplace and in the fast-paced evolution of the Internet.

BCE Mobile continued to grow impressively in 1997, ending the year with just under 1.7 million customers, an increase of 18 per cent over 1996. Using Nortel equipment, the company launched the first integrated PCS/analog wireless network in North America. This permits a customer to pass seamlessly and automatically between areas with digital PCS service and areas served by traditional analog cellular technology.

While 1997 saw the introduction of two new wireless competitors, the dual network capability, the added value of its portfolio of services and the reliability of its network will be a key marketplace "differentiator" for BCE Mobile.

Bell Canada International (BCI), previously 100 per cent owned by BCE, sold shares to the public in October, 1997, with the issue of 20.7 million shares at $22.50 each. BCE retains a 74 per cent interest in BCI after the public offering. The $438 million net proceeds of BCI's public offering will be used to further develop existing businesses and to invest in future opportunities.

The issue is not if all Canadians will eventually be connected to cyberspace, the only question is when and on whose terms. We can either be leaders or followers, but we cannot opt out.

BCI's portfolio already includes a number of high potential initiatives in Latin America and Asia. One impressive example is Comcel, a cellular company in Colombia which has registered outstanding growth, increasing the number of subscribers by 160 per cent in 1997 to more than 430,000 at year-end.

Tele-Direct's 1997 results reflect higher earnings from international operations. While continuing to grow and innovate through its traditional Yellow Pages business, the company is also exploring a variety of new advertising opportunities designed to bring buyers and sellers together. For example, the Yellow Pages site on the World Wide Web now includes more than 2.5 million business listings.

ExpressVu, 90 per cent owned by BCE, launched its nation-wide, direct-to-home satellite service in September through a cross-Canada network of satellite dealers and mass consumer retail chains. In the fall of 1998, Telesat Canada plans to launch a direct broadcast satellite which will allow ExpressVu to offer the equivalent of 200 channels of local, regional and national television programming, Internet access and CD-quality audio programming.

BCE took a major initiative in the systems integration business by entering into an agreement with The CGI Group Inc., a leading company in this field. As part of the agreement, scheduled to close mid-1998, BCE's ownership in CGI will increase to 43 per cent. BCE will also have the option of obtaining majority ownership after six years.

As we build communications networks for the future, the one common element in all of our operating companies is increasing competition. Technology evolution, globalization, new players in new markets bring both opportunities and challenges. And while telecommunications today is undergoing rapid change, the constant key to success continues to be mastery of the fundamentals – a clear business vision backed by innovation, efficiency and a commitment to the customer all supported by talented people.

A Connected Canada

In 1997, the Canadian Government committed itself to making the information and knowledge infrastructure accessible to all Canadians by the year 2000, thereby making Canada the most "connected" nation in the world. The government's goal flows from the recognition that the power of information to enrich a society depends on the extent to which its citizens are connected – connected among themselves and with the rest of the world.

The issue is not if all Canadians will eventually be connected to cyberspace, the only question is when and on whose terms. We can either be leaders or followers, but we cannot opt out. If we are to be leaders – and we can be – the rewards in terms of investment attracted, jobs created, and services provided will be enormous. If we lag, others will surpass us, for time is of the essence in this business.

We in the BCE group of companies embrace this vision of connectedness and are committed to play our part in positioning Canada for leadership in what I believe will be the most important arena of social and economic development in the 21st Century.

Corporate Governance

Louise B. Vaillancourt retired from the board in May of 1997 after 22 years of distinguished service on both the BCE and Bell Canada Boards. Her depth of experience and wise counsel will be missed. She was replaced on the BCE Board by Elizabeth B. Wright, senior vice-president, strategic planning and marketing of National Trust, a financial services company. Regrettably, changes in her professional association led Mrs. Wright to tender her resignation from the board in January, 1998.

In September, Ronald W. Osborne, previously president of BCE and a director of the company, was appointed president and CEO of Bell Canada. On February 28, 1998, he will leave Bell Canada to become the CEO of Ontario Hydro. During Mr. Osborne's service with BCE, dating from January, 1995, he made a substantial contribution to the development of the corporation. We wish him every success in his new responsibilities.

Also in September, Jean C. Monty was appointed president and chief operating officer of BCE. Coincident with the departure of Mr. Osborne, Mr. Monty will also be appointed chairman and CEO of Bell, and John A. MacDonald will be named president and chief operating officer. John Roth, formerly president and chief operating officer of Northern Telecom, became chief executive officer of the company coincident with Mr. Monty's appointment to BCE.

I have advised the board that I will retire as CEO effective May 6, 1998, but will continue to serve the corporation as Chairman of the Board. Mr. Monty will succeed me as CEO.

Our success during the past year is due to the efforts of the more than 120,000 employees in the BCE group of companies, and on your behalf, I thank them for their loyalty and their dedication.

During my six years as the chief executive officer of your company, enormous change has taken place throughout the industry, and indeed, throughout the BCE group of companies. I hasten to thank all of the senior managers in the BCE group for their support and assistance during this exciting and challenging period.

Your corporation is well-positioned, well-financed, capably led and staffed by men and women with exceptional skills and experience. With the ongoing support of all of our stakeholders, BCE will continue to be Canada's leading communications company.

L.R. Wilson
Chairman and
Chief Executive Officer

February 25, 1998

An interview with L.R. Wilson

L.R. Wilson will retire as CEO of BCE on May 6, continuing as chairman of the board. In this interview, Mr. Wilson reflects on the leadership role Canada and BCE must play in the emerging medium of cyberspace, and in telecommunications in general.

Interview

Q. Last year the federal government committed to making Canada the most connected nation in the world by the year 2000. What does this mean for Canada?

A. This suggests two things: first, a recognition that access to information is vital to the emerging knowledge-based economy; and second, that Canada has a historic opportunity to shape the future of "cyberspace", which refers to the medium of interaction by which millions of people around the world are linked through computers, phone lines and satellites.

Q. Becoming the most connected nation in the world seems quite ambitious. Is it possible?

A. Actually, we are already among the best connected. Our phone network is nearly 100 per cent digital – a proportion unequalled even by the United States. We also have the best combination of telephone, cable TV and personal computer penetration among G7 countries.

What we need beyond this is leadership. The private sector has the responsibility to marshall its skills, innovation and investment to create infrastructure and applications. Governments can lead by fostering a supportive regulatory and policy environment. They can also stimulate new services by exercising their enormous purchasing power in health care, education and information.

BCE in Canada: Facts and Figures

• Revenues	$13.8 billion
• Capital expenditures	$2.6 billion
• R&D expenditures	$1.2 billion
• Total taxes paid	$1.6 billion
• Number of shareholders	400,000 (app.)
• Total dividends paid to common shareholders	$865 million
• Donations, educational and other sponsorships	$22 million
• Employees	70,000
• Pensioners	34,000

All figures are for the year 1997, Canada only, except number of shareholders and dividends paid which are domestic and international.

Q. What's around the corner in cyberspace?

A. Undreamed of technologies and applications are in the wings which will allow seamless and intuitive entry to the information highway. We must develop and perfect practical applications in health care, education and electronic commerce to spur continued technological growth. That will not only make us leading exporters of technology but will also attract even more investment in knowledge-based businesses for Canada.

Q. Can you give some examples of what you mean by practical applications?

A. In the field of tele-medicine, for example, we're now transmitting diagnostic X- rays and mammograms over high-bandwidth lines and doctors at major hospitals are examining patients in outlying areas via interactive video links. In the field of training and education, Queen's University in Kingston, Ontario, now offers MBA courses from St. John's to Whitehorse via the telecommunications network. Federal and provincial governments, working with the Stentor group of companies, Telesat Canada and others, are nearing the completion of SchoolNet, which will connect all of Canada's 16,000 schools and libraries to the Internet.

Q. What are the technical or market-related considerations that will help drive growth on the Internet and consequently hasten introduction of new applications?

A. We need a much faster Internet connection for homes and small businesses – one capable of supporting a reasonably high quality video image on a PC screen. Second, we need to make sure that access to the information highway can become as habitual and intuitive as consulting a telephone directory. This means a connection that is always on and ready to be accessed with no need to turn on a PC and wait. The connection should be as simple as dialtone, but shouldn't tie up your telephone line or Bell's switches.

Finally, and most important, this faster, simpler connection must be cheap and widely available so as to stimulate rapid take-up. In short, we need the cyberspace equivalent of Henry Ford's original strategy for the automobile industry. Once the possibilities of connectedness begin to be understood by everyone, new applications will multiply and the investment needed to further upgrade the infrastructure will be readily forthcoming.

Q. You have expressed great confidence that a made-in-Canada information highway is part of our future. What is BCE doing to make this a reality?

A. I view this as a nation building exercise, and every BCE company is getting involved in the initiative:

For example, homes and businesses need faster and simpler Internet connections that are "always on" and don't interfere with voice calls. Bell's asymmetric digital subscriber lines (ADSL) fit the bill perfectly and service roll-out has already begun. In a similar vein, Nortel recently unveiled the 1-Meg modem, an Internet access technology that's considerably faster than the fastest analog modem.

Nationally, Bell and its fellow Stentor telephone companies are using equipment from Nortel, Newbridge and others to build the next cross-country multimedia network, based on a new transmission method called asynchronous transfer mode (ATM). Through MediaLinx, we're investing in Internet content development in English and French for our Sympatico Internet service. Finally, Bell Canada's new Bell Emergis division is working with entrepreneurs and researchers to develop network software to power new applications.

But remember, cyberspace is not a world waiting to be discovered. It's a world we have to create together through ingenuity and talent.

The BCE Group of Companies

CANADIAN TELECOMMUNICATIONS

WIRELINE

BELL CANADA
100%

Bell Sygma Inc.
100%

MediaLinx Interactive, Limited Partnership (Sympatico)
75.4%

TÉLÉBEC LTÉE
100%

NORTHERN TELEPHONE LIMITED
99.9%

NORTHWESTEL INC.
100%

NEWTEL ENTERPRISES LIMITED
55.5%

NewTel Communications Inc.
100%

BRUNCOR INC.
44.9%

The New Brunswick Telephone Company, Limited
100%

MARITIME TELEGRAPH AND TELEPHONE COMPANY, LIMITED
34.8%

The Island Telephone Company Limited
52%

TELEGLOBE INC.
23.3%

WIRELESS

BCE MOBILE COMMUNICATIONS INC.
65.3%

Bell Mobility companies
100%

Iridium Canada Inc.
48%

SATELLITE

TELESAT CANADA
58.7%

TMI COMMUNICATIONS AND COMPANY, LIMITED PARTNERSHIP
100%

INTERNATIONAL TELECOMMUNICATIONS

BELL CANADA INTERNATIONAL INC.
73.7%

LATIN AMERICA(2)

Comcel (Colombia)
50.1%

Americel (Brazil)
19%

Canbras TVA (Brazil)
31.3%

Telem (Brazil)
25%

ASIA-PACIFIC REGION(2)

Tata Communications (India)
39%

Yantai Bell (China)
40.8%

Shandong Bell (China)
39.8%

KG Telecom (Taiwan)
10%

Astel Tokyo Corporation (Japan)
1%

BCI TELECOM HOLDING INC.
100%

Cable & Wireless Communications (United Kingdom)
14.2%

Jones Intercable, Inc. (U.S.A.)
31.4%

DIRECTORIES

TELE-DIRECT (PUBLICATIONS) INC.
100%

TELE-DIRECT (SERVICES) INC. (CANADA)
100%

Cornerstone List Brokers Inc.
60%

Cornerstone List Managers Inc.
60%

Tele-Direct Atlantic Inc.
12.9%

TELE-DIRECT INTERNATIONAL
100%

Pacific Access Pty. Ltd. (Australia)
12.2%

Telecom Directories Limited (Hong Kong)
49%

Al Wahda-Express (United Arab Emirates)
35%

Tele-Qatar Publishing (Qatar)
49%

Tele-Gulf Directory Publications (Bahrain)
59%

Egypt Yellow Pages Limited
47%

Caribbean Publishing Company (Cayman Islands)
96%

NORTHERN TELECOM

NORTHERN TELECOM LIMITED
51.7%

Northern Telecom Inc. (U.S.A.)
100%

Nortel plc (United Kingdom)
100%

Nortel CALA Inc. (Caribbean and Latin America)
100%

Northern Telecom (Asia) Limited (Hong Kong)
100%

Nortel Europe S.A. (France)
100%

OTHER

THE CGI GROUP INC.
24%(1)

EXPRESSVU INC.
90%

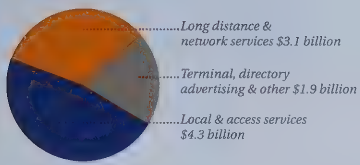
Ownership percentages displayed are as of December 31, 1997. Certain entities are held indirectly through one or more subsidiaries which are not shown here.

(1) If an agreement between BCE and CGI is executed as planned by mid-1998, BCE's ownership will increase to 43%, and certain Bell Sygma functions will be transferred into The CGI Group.

(2) Fully diluted.

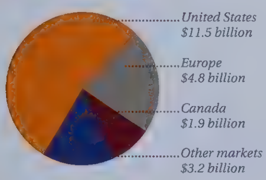
Key Strategies

Sources of revenues



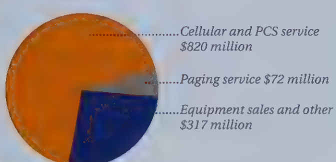
- Aggressively develop new markets, products and services to generate new revenue streams.
- Guarantee operational excellence through easier, more flexible customer connection and an improved cost structure.
- Regain marketplace momentum through competitive long distance pricing plans and enhanced sales and marketing.
- Utilize strategic alliances and/or co-venture partnerships to provide end-to-end customer solutions and to develop new and creative applications.
- Continue to expand broadband capabilities through new technologies such as ATM and ADSL.

Sources of revenues



- Lead the industry evolution toward webtone, a shift that will enable data networks to deliver the same kind of reliability, integrity, security and capacity found in voice networks.
- Deploy our industry leading high-capacity transport solutions to satisfy the increasing bandwidth demands – driven by Internet growth – on our customers' networks.
- Partner with our customers to provide the right solutions and reliable products for their network upgrades.
- Continue to expand our international presence.
- Use joint ventures and/or strategic alliances to provide the end-to-end solutions that our customers require.

Sources of revenues



- BCE Mobile will continue to migrate medium and high-usage analog cellular and TDMA digital customers to its PCS service.
- The corporation plans to develop and bring to market innovative wireless features made possible by its state-of-the-art CDMA network.
- BCE Mobile will continue to take advantage of its 13 years of experience in network management and customer service, as well as its extensive distribution system, financial strength and brand loyalty to maintain its leadership position in Canadian wireless.

Cash invested

- Generate continued growth at BCI's flagship operation, COMCEL.
- Deploy operating expertise to achieve successful buildout of networks in Brazil, India, China and Taiwan.
- Evaluate and pursue selective opportunities for expansion via existing and new investments.

Sources of revenues

- To strengthen our customer relationships by continuing to find new and innovative ways to connect buyers and sellers… anytime, anywhere.
- Continue to build our capabilities in electronic media and direct response marketing.
- Continue to leverage our core sales and marketing competencies to seek new emerging market opportunities abroad.

1997 in Review

Bell

Bell Canada is Canada's largest supplier of telecommunications services. With one of the world's most robust and reliable public switched networks, Bell provides advanced voice, data and image communications to more than seven million business and residential customers in Ontario and Quebec. One hundred per cent of Bell's network is served by digital switches.

1997 Statistics

As of December 31, 1997	
Number of employees	39,328
Total assets	$14.7 billion
Network access services	10.6 million
Conversation minutes carried in 1997	9.9 billion
Current market share	
long distance	63%
local access market	100%

Financial Highlights

($ millions, except per share amounts)	1997	1996
Consolidated revenues	9,246	8,700
Consolidated net income applicable to common shares	852[1]	714
% return on average common equity	11.7[1]	9.8
Consolidated operating cash flow	3,074	2,757
Consolidated free cash flow	438	204
Telecommunications contribution to BCE earnings per share [1,2]	1.26	1.05

Operating Highlights

- Earnings increased by 19.3%, to $852 million.
- Revenues grew by 6.3%, to over $9 billion.
- Operating cash flow surpassed $3 billion for the first time in the company's history. Free cash flow was positive for the second year running.
- Overall operating expenses increased over last year, due to an increase in depreciation and amortization expense.

Market Overview

- Long distance market share at 63% represents a 6% loss over the previous year.
- In May, the CRTC released landmark decisions that effectively opened the local services market to competition.
- A modernization of Bell's informatio systems/information technology infr structure will result in more innovati and flexible service to customers, at lower cost.

NORTEL
NORTHERN TELECOM

Nortel (Northern Telecom) is a leading global designer, builder and integrator of communications networks. Nortel works closely with customers around the world to deliver digital network solutions that make them successful. To help our customers prepare for the future, we are committed to delivering webtone – a move that will transform how people communicate and the networks they use for information, entertainment, education, business and commerce.

As of December 31, 1997	
Number of employees (consolidated)	72,896
Countries or territories with Nortel presence	150
Revenues from United States	$11.5 billion
Revenues from Europe	$4.8 billion
Revenues from Canada	$1.9 billion
Other markets	$3.2 billion

($ millions, except per share amounts)	1997	1996
Revenues	21,466	17,511
R&D investment	2,978	2,471
Operating cash flow	1,857	1,417
Contribution to BCE earnings per share [2]	0.91	0.69

- Revenues increased by 23% to $21.5 billion.
- Order input increased to $22.8 billion.
- Net earnings applicable to common shares were $1.1 billion.
- Research and development expenses increased to $3 billion or 13.9% of revenues, driven by increased investments across all lines of business.

- Demand for Internet access is redefi the way businesses compete in a glob economy and giving individuals acce to a variety of media.
- New technologies, particularly relate to data and Internet Protocol (IP) networks, are providing significant growth opportunities.
- The globalization of the telecommun cations marketplace continues at a rapid pace.

Bell Mobility

BCE Mobile Communications Inc. is Canada's most experienced full-service wireless telecommunications company. Under the Bell Mobility banner, it provides cellular, PCS and one- and two-way paging in Ontario and Quebec and nationally through its participation in Mobility Canada. BCE Mobile also provides data, airline passenger and satellite communications services, and sells customer hardware and private radio systems.

As of December 31, 1997	
Number of employees	2,942
Cellular and PCS subscribers	1,221,000
Average revenue per subscriber (per month)	$62
Pagers in service	475,000
Average revenue per pager (per month)	$14

($ millions, except per share amounts)	1997	1996
Revenues	1,209	926
EBITDA	365	303
Net income	71	64
Operating cash flow	288	236
Contribution to BCE earnings per share [2]	0.07	0.06

- Revenues increased by 31% to $1.2 billion compared with $926 million in 1996. The increase resulted mainly from a 17% increase in cellular and PCS service revenues and an increase in equipment sales.
- EBITDA increased to $365 million in 1997 compared with $303 million in 1996.
- Net income grew by 11% to $71 million in 1997 compared with $64 million in 1996.

- Competition in the wireless commun cations market increased in 1997 with the deployment and aggressive marke ing of new digital PCS services by all fou PCS licensees, including Bell Mobility's PCS Plus service, in Ontario and Quebec.
- There were 4.2 million wireless voice customers in Canada at the end of 1997, up 23% from year-end 1996.

Bell Canada

BCI is a leading provider of telecommunications services in emerging markets. The company owns, develops and operates telecommunications systems outside of Canada, primarily in Latin America and the Asia-Pacific region with a focus on the wireless sector.

As of December 31, 1997	
Number of employees	1,520
Total Licensed POPs	193 million
Equity POPs	72 million
Total Subscribers	597,000
COMCEL Subscribers	431,000
Equity Subscribers	262,000

($ millions, except per share amounts)	1997	1996
Revenues	418	215
EBITDA	98	47
Total Assets	1,600	761
Contribution to BCE earnings per share [2]	(0.09)	(0.04)

- $438 million raised during initial public offering in October 1997. BCE's ownership diluted to 73.7%. Shares listed on Toronto and Montreal stock exchanges and NASDAQ.
- Record growth in subscribers (+260%) and growth in EBITDA (+109%) and revenue (+94%).
- Three new wireless operations launched in Brazil, Taiwan and China.
- Agreement concluded to launch new fixed-wireless local network in Mexico.

- BCI targets markets with significant unmet demand for telecommunications services, high GDP growth and liberalizing regulatory environments.
- BCI can benefit from new greenfield and consolidation opportunities.

TELE-DIRECT (PUBLICATIONS) INC.

Tele-Direct is one of the world's leading directory publishers. The company sells, markets and publishes alphabetical pages and Yellow Pages directories for communities in Ontario and Quebec served by Bell Canada, and provides similar services for other telephone companies in Atlantic Canada, Ontario, Quebec, the Yukon and the Northwest Territories. The company publishes directories in the United Arab Emirates, Bahrain, Oman, Qatar, Egypt, the Caribbean and Hong Kong. In addition, the company uses emerging technologies such as CD-ROMs and the Internet to provide new innovative advertising and marketing services that connect buyers with sellers.

As of December 31, 1997	
Number of employees	2,400
Number of directories published annually	159
Number of Canadian advertisers	326,000

($ millions, except per share amounts)	1997	1996
Revenues	584	556
Operating cash flow	82	66
Contribution to BCE earnings per share [2]	0.11	0.09

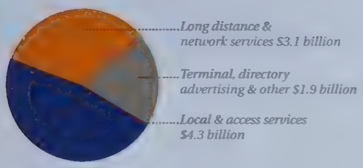
[1] Excluding impact of extraordinary item.
[2] Adjusted for May, 1997, share split.

- Operating cash flow of $82 million increased by 24%.
- Contribution to BCE earnings of $70 million increased by 25% over the prior year.

- Canadian consumers are more sophisticated today; they are quality and value-conscious.
- Advertisers want to target specific, high-value, loyal customers.
- Marketing strategies are changing to highly targetted approaches using new media such as the Internet, and advanced data management applications.

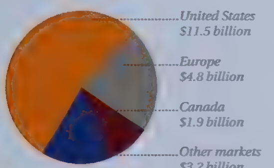
Key Strategies

Sources of revenues



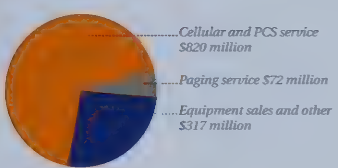
- Aggressively develop new markets, products and services to generate new revenue streams.
- Guarantee operational excellence through easier, more flexible customer connection and an improved cost structure.
- Regain marketplace momentum through competitive long distance pricing plans and enhanced sales and marketing.
- Utilize strategic alliances and/or co-venture partnerships to provide end-to-end customer solutions and to develop new and creative applications.
- Continue to expand broadband capabilities through new technologies such as ATM and ADSL.

Sources of revenues



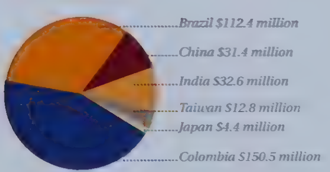
- Lead the industry evolution toward webtone, a shift that will enable data networks to deliver the same kind of reliability, integrity, security and capacity found in voice networks.
- Deploy our industry leading high-capacity transport solutions to satisfy the increasing bandwidth demands – driven by Internet growth – on our customers' networks.
- Partner with our customers to provide the right solutions and reliable products for their network upgrades.
- Continue to expand our international presence.
- Use joint ventures and/or strategic alliances to provide the end-to-end solutions that our customers require.

Sources of revenues



- BCE Mobile will continue to migrate medium and high-usage analog cellular and TDMA digital customers to its PCS service.
- The corporation plans to develop and bring to market innovative wireless features made possible by its state-of-the-art CDMA network.
- BCE Mobile will continue to take advantage of its 13 years of experience in network management and customer service, as well as its extensive distribution system, financial strength and brand loyalty to maintain its leadership position in Canadian wireless.

Cash invested



- Generate continued growth at BCI's flagship operation, COMCEL.
- Deploy operating expertise to achieve successful buildout of networks in Brazil, India, China and Taiwan.
- Evaluate and pursue selective opportunities for expansion via existing and new investments.

Sources of revenues

- To strengthen our customer relationships by continuing to find new and innovative ways to connect buyers and sellers… anytime, anywhere.
- Continue to build our capabilities in electronic media and direct response marketing.
- Continue to leverage our core sales and marketing competencies to seek new emerging market opportunities abroad.

Review of Operations

The fall of 1997 saw the launch of ExpressVu, BCE's 90 per cent owned direct-to-home satellite television service.

F O C U S

BCE's activities are focussed on the telecommunications industry and can be summarized as follows: BCE provides communications services; it develops and implements telecommunications systems, and it creates and applies technology. We operate in all areas of the communications industry – from wireless to wireline, satellite to directory services, research and development to manufacturing and we deliver excellence across a broad spectrum.

Quality Services to Customers

Service can be defined in many ways by different customers: responsiveness; partnerships; innovation; flexibility; competitive prices. BCE's success comes from providing a combination of these elements to meet the particular needs of individuals, companies and other organizations.

BCE Mobile recently won an important contract from a major city in Quebec, winning the business away from a competitor on the basis of network and service excellence. The company was able to provide the city with additional capacity on short notice – something the competition was not equipped to do. The contract extended to the city's police department which is 100 per cent served by the Bell Mobility network.

By listening to its customers, Bell was able to aggressively respond to the highly competitive residential long distance market with a new price package called FirstRate. The FirstRate plan enables consumers to make long-distance calls anywhere in Canada for only 10 cents a minute during evenings and weekends which is when the vast majority of consumer calls are made.

The fall of 1997 saw the launch of ExpressVu, BCE's 90 per cent owned direct-to-home satellite television service. ExpressVu offers 70 channels of regional, national and international programming. Telesat Canada plans to launch a direct broadcast satellite in the fall of 1998 which will increase ExpressVu's broadcasting capability and bring Canadians 200 channels of programming.

Integrated Solutions

We believe it is imperative that BCE be fully equipped to respond to the systems needs of our customers.

A notable example of co-operation in developing systems was provided by Bell Canada and Nortel, who joined forces to supply a broadband network and managed services for the network services offered by IBM Global Services in Canada. Capitalizing on Nortel's Passport frame relay technology and Bell's proven expertise in managing customer networks, the deal showcases the value brought to the table by BCE's intercorporate capabilities.

In order to bolster our system integration expertise, BCE increased its stake in The CGI Group Inc., a leading Canadian integrator which already had a close working relationship with Bell Canada. Bell Sygma will be transferred into a separately managed holding company within CGI and will receive a ten-year contract for Bell's information technology requirements. BCE will hold 43 per cent of CGI with the option to increase its ownership to 56 per cent after six years.

The Push Towards New Technologies

Technology remains the lifeblood of our continued success. And Nortel continues to be a world leader in the creation and deployment of telecommunications technologies.

Nortel is parlaying its 100-year history of providing dial-tone into a similar expertise delivering "webtone." Given the growth in data traffic and the migration to Internet-type networks, the company is confident that expertise in this area is central to its continued success.

Bell Mobility's personal communications services (PCS) network was launched in the fall of 1997. Much of the company's capital expenditures for the past year and into 1998 will focus on expanding the network in tandem with its existing cellular business. The rich mix of PCS features will help drive growth in both subscribers and new revenues.

Bell Canada will be spending approximately $200 million over the next four years to boost its network capabilities in non-urban areas of Quebec and Ontario. This service improvement program will ensure that all customers have access to similar-quality telecommunications service no matter where they live or work.

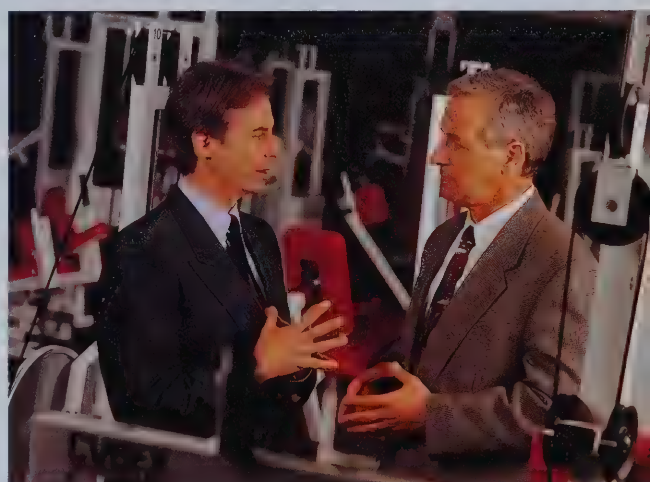
Emerging technologies are just as important to a company like Tele-Direct, whose traditional business is printed telephone directories. Tele-Direct is working with customers such as The Sports Clubs of Canada in Toronto to generate new business efficiencies. In addition to their extensive Yellow Pages program, The Sports Clubs of Canada uses Tele-Direct's Call Tracker service to measure and distribute callers responding to ad campaigns.

With a Yellow Pages Web site that has more than 2.5 million business listings, Tele-Direct is playing a key role in the advent of "electronic commerce."

From services, to integration, to technology, BCE has an unparalleled reach throughout the industry giving it a unique competitive advantage.

Nortel's Loris Zaia, left, and Carl Condon of Bell: bringing the value of BCE's intercorporate capabilities to IBM.

Sports Clubs' Jay Kell, left, and Tom Holz of Tele-Direct: generating new business efficiencies.



Bell Mobility came face to face this year with perhaps the greatest challenge in its short history: to build an integrated PCS/analog wireless network .

Innovation

Within the BCE group of companies, innovation is largely driven by research and development activities undertaken by Nortel. Its innovations continue to facilitate new services and applications introduced by other BCE companies. In 1997, Nortel spent three billion in research and development, some 13.9 per cent of its revenues.

At Technology's Forefront

While innovation has been the cornerstone of Nortel's success, it has often been achieved in partnership. During the latter part of 1997, Nortel and its partner Norweb Communications of the U.K. announced a breakthrough that electrified the global Internet community. The companies developed the technology to transmit information at high speeds over electrical power lines, offering a practical, low-cost means of Internet access. Not expected to be of application in North America, the technology is ideally suited to the electric power infrastructures in use in Europe and Asia.

In a similar vein, Nortel unveiled a 1-meg modem which operates about 17 times faster than previously available analog modems. This new modem addresses the high-volume needs of the consumer market where demand is exploding along with Internet growth. Also directed at this market is a new Internet service known as Web Call-Waiting, which allows web surfers to temporarily suspend an Internet session in order to receive an incoming telephone call.

In December, 1997, Nortel served notice to employees and the industry that it intends to further its web expertise through an initiative known as "webtone." At its heart, "webtone" is focused on making the Internet as reliable and easy to access as the voice network – and therefore as much a part of our everyday lives as dialtone is today. That expertise is critical for Nortel because many of its customers are already migrating to the technology, placing greater emphasis on their data and Internet networks than on their voice networks.

A North American First at Mobility

Bell Mobility came face to face this year with perhaps the greatest challenge in its short history: to build its own personal communications services (PCS) network and in the process create the first integrated PCS/analog wireless network in North America. The feat was achieved through a unique multi-disciplinary team that not only pushed the limits of technology but also fixed a keen eye on the services and reliability customers would ultimately receive.

Bell Mobility's Brian O'Shaughnessy and Charlotte Burke: building the first integrated PCS/analog wireless network in North America.

Unleashing Network Potential

In July, Bell Canada launched Bell Emergis, whose mandate is to create leading-edge platforms and applications, now made possible by the convergence of software and networking. Bell Emergis will work with a variety of partners to release the value and power hidden in telecom networks around the world.

Staffed with approximately 400 professionals, Emergis is poised to become a galvanizing force in its area of expertise. It has recently signed a deal with the Toronto-Dominion Bank whereby Emergis will become the bank's Internet service provider and electronic commerce partner leveraging a previous partnership with Netscape.

Emergis is also developing unique network-based applications for a variety of communities of interest. Jazz Media Networks is but one example. Using broadband networks, Jazz allows media production professionals – from film producers to advertising agencies – to collaborate on projects across town or around the world.

And underscoring its international aspirations, Emergis announced in the fall of last year a joint agreement with Denmark-based GN Nettest to develop and market advanced tools for telecom network surveillance and data management.

Marcel Messier, left, of Jazz Networks and Marc Tellier of Bell Emergis: collaboration and international aspirations.

Putting Customers in Charge

Bell Canada's Internet Web site enables customers to not only communicate with the company – but even to use it as an ordering tool. Using the Bell site, customers can order services such as Call Answer and Call Display, and even Vista 350 telephones, or sign-up for their preferred long distance savings package.

Americel, owned 19 per cent by BCI, is Brazil's first private B-band cellular company and had 16,000 customers by the end of 1997.

Global Reach

BCE's global activities, largely through Nortel and Bell Canada International, have propelled it onto the world stage, and stimulated exports of Canadian technology and expertise to both emerging and developed communications markets.

Continuing the Nortel Tradition

Nortel's track record over the past two decades has made its name synonymous with excellence in Canadian telecommunications technology and expertise around the globe. With 1997 revenues of $21.5 billion and a presence in more than 150 countries and territories, we believe it is the flagship of Canada's export initiative.

Nortel's expertise in wireless, for example, is winning many converts to its technology. That's largely because it developed expertise and products in all three PCS technology platforms used around the world, rather than restricting itself to a single one. Cellcom Israel, which signed up half-a-million subscribers in its first two years of operation, has tapped into that expertise. Last year, Cellcom announced it had selected Nortel's Wireless Intelligent Network (WIN) Service portfolio to stay ahead of the competition in the delivery of advanced personal communications services such as fax and voice messaging, call screening and voice-activated dialing.

Closer to home, U.S. local service carrier Teligent announced in November that it had named Nortel the preferred supplier and principal integrator of its nation-wide system of local digital networks. The announcement outlined an equipment purchase and vendor financing valued at US $780 million over five years.

Beyond the simple supply of technology, Nortel regularly enters into partnership with customers to their mutual benefit. In September, Nortel and U.K.-based telecommunications services provider Energis announced a five-year alliance called "Partners in Technology." Energis, owned by the National Grid Group plc, has built a 5,000 kilometer fibre optic network in parallel with its electricity transmission infrastructure. Along with new commercial opportunities for Nortel – such as the sale of 20 DMS-100 switches – the alliance will provide Energis with reduced capital and operating costs, a higher return on assets, and access to Nortel's services and applications development initiatives.

Nortel is also working with BCE company Telesat Canada and local Brazilian partners in that country for a satellite-based telephone system. If the venture proceeds as planned, Telesat will manage the satellite aspect while Nortel will be the preferred supplier of the required ground equipment.

A Year of Growth at BCI

Bell Canada International began the fourth quarter of 1997 as a publicly traded company, of which BCE holds approximately 74 per cent. Funds raised from the initial public offering will fuel BCI's continued expansion as an investor-operator in global telecommunications. The company's focus is on wireless projects in key emerging Latin American and Asian markets.

BCI currently has interests in companies in Colombia, India, Brazil, China and Taiwan.

In Colombia, for example, BCI's 50.1-per-cent-owned cellular operation, Comcel, continues to outpace expectations in both subscriber and revenue growth. By year-end, the company had 431,000 subscribers compared to 166,000 at the end of 1996.

Yantai Bell and Shandong Bell, 41 per cent and 40 per cent owned by BCI, are wireless operations in the Chinese province of Shandong, which holds particular potential for telecom growth since it is among China's most industrialized and wealthiest provinces. By the end of 1997, Yantai Bell and Shandong Bell had 11,000 subscribers each.

In Brazil, BCI has three operations. Canbras TVA provides cable television service to a network of cities in the metropolitan area of São Paulo and nearby shoreline communities and had 32,000 customers by the end of 1997. Americel, the country's first private B-band cellular company, launched its operations in November and had 16,000 customers by the end of 1997. TST, a recent acquisition, provides local telephone service to 62,000 customers.

BCI is also part of a consortium that is bidding on the spectrum required to provide nation-wide, fixed wireless local telephone service in Mexico.

BCI's Monique Mercier and Mike Lisogurski: Canadian expertise in global telecommunications markets.

Paul Bush, left, of Telesat and Sorin Cohn of Nortel: a joint foray into Brazil.

We are joining with our paper and printing suppliers of this Annual Report in supporting Earth Day Canada in their reforestation program.

Commitment

The contributions the BCE companies make to the social and economic well-being of our communities support our belief that business cannot operate in a vacuum. We have a responsibility to foster: economic strength; access to educational and cultural institutions; and effective community-based social programs.

Nortel Supports Education

One of the single biggest employers of knowledge workers and engineering talent in Canada, Nortel is committed to helping universities prepare for a future in which intellectual capital and technical skills are the new wealth of nations. Education is Nortel's focus and higher education its priority.

Nortel spends more than $12 million annually on collaborative research and educational support with several research consortia and universities. Nortel and Bell are also participants in Career Edge, whereby major companies provide six- to 12-month internships for high school, college and university graduates. Nortel, the most active player in the program, has brought in 92 interns to date, while Bell has welcomed more than 20.

The focus on education is especially vital to Nortel, which last year alone announced plans for 5,000 new jobs at its Ottawa location and 1,000 new positions planned in Montreal. In both facilities, the majority of these new positions will be filled by "knowledge workers."

The Bell Mobility Foundation

In order to formalize and better manage its community activities and contributions, Bell Mobility formed its own foundation in 1996. The Bell Mobility Foundation's activities are varied: from

supporting the Club des petits-déjeuners du Québec, which serves more than 100,000 nutritious breakfasts to school children, to supporting a research project in Toronto to equip disabled persons with specially customized mobile telephones.

In total, the company supports more than 200 community agencies and events across Ontario and Quebec, contributing more than $1.1 million annually to these initiatives.

Supporting the Community

Bell Canada has a decades-long tradition of community support that continues today in many areas of endeavour.

For example, Bell is a founding sponsor of Kids Help Phone – a toll-free national counselling service (now also available on the Internet) for children in trouble or distress. The service receives 4,000 calls every day. Bell also sponsors the Bell Canadian Open golf tournament, which supports an important Canadian sporting institution, while also providing an opportunity to raise Bell's profile within certain key customer segments and the public at large.

As well, Bell receives national prominence through its sponsorship of the Governor General's Performing Arts Awards. Since 1992, Bell has supported these awards as a means of recognizing excellence in Canada's cultural community.

Similarly, Bell is encouraging new artists of all kinds through the Bell Broadcast and New Media Fund launched in 1997. Bell plans to award $5 million through the fund this year. The fund will invest $12 million over two-and-a-half years in support of world-class television and multimedia content for audiences at home and abroad.

Nortel and Bell Canada have strong environmental records, as their numerous awards in a variety of areas attest.

At the BCE corporate level, we are joining with our paper and printing suppliers of this annual report in supporting Earth Day Canada in their reforestation program. The funds will be used to plant 250 mature trees on the Island of Montreal, where so many trees were destroyed by the ice storm in early January.

Johanne Papa of the Bell Mobility Foundation: supporting 200 community events and agencies.

Bell's Katrina Hirsh with Ted Kaiser of Kids Help Phone: 4,000 calls a day from children in distress.

Nortel's Anne McKenna, left, with Career Edge intern Kendra Kehoe: employment opportunities for new graduates.

Management's Report

The accompanying consolidated financial statements of BCE Inc. and its subsidiaries (collectively BCE), and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgements of management, and in their opinion present fairly BCE's financial position, results of operations and changes in financial position. Financial information presented elsewhere in the annual report is consistent with that in the financial statements.

Management of BCE, in furtherance of the integrity and objectivity of the financial statements, has developed and maintains a system of internal controls and supports an extensive program of internal audits. Management believes the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements and that BCE's assets are properly accounted for and safeguarded. The internal control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, consisting solely of outside and unrelated directors. The Audit Committee reviews the Corporation's annual consolidated financial statements and other information in the annual report, and recommends their approval by the Board of Directors. Additional responsibilities of the Audit Committee are outlined on page 67 of this annual report. The internal and the shareholders' auditors have free and independent access to the Audit Committee.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche, Chartered Accountants, and their report is presented below.

Chairman and
Chief Executive Officer

President and
Chief Operating Officer

Walter B. Anderson

Senior Vice-President, Finance

February 25, 1998

Auditors' Report

To the Shareholders of BCE Inc.

We have audited the consolidated balance sheet of BCE Inc. and its subsidiaries as at December 31, 1997 and 1996, and the consolidated statements of operations, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1997 as they appear on pages 38 to 63. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and 1996, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1997, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants

Montreal, Quebec
February 25, 1998

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of 1997's financial results focuses on the principal operating groups of BCE Inc. and includes a review of the operations and financial situation of each operating group. BCE Inc. and its consolidated subsidiaries are collectively referred to herein as BCE. This MD&A should be read in conjunction with the audited consolidated financial statements contained on pages 38 to 63 of this annual report. Bell Canada, BCE Mobile Communications Inc., Northern Telecom Limited (Nortel) and Bell Canada International Inc. publish a more detailed discussion and analysis of their results of operations and financial condition in their annual reports. You may obtain copies of these reports from the Investor Relations department of BCE Inc. (see page 68).

This MD&A contains forward-looking statements with respect to either BCE Inc. or certain of its subsidiary or associated companies. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. BCE Inc. considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of BCE Inc. and its subsidiary or associated companies, may ultimately prove to be incorrect.

Results by operating group

Revenues

	($ millions)			*% Change Favourable (Unfavourable)*	
	1997	1996	1995	**1997 vs. 1996**	1996 vs. 1995
Canadian Telecommunications					
Bell Canada (excluding directory operations)	**8,757**	8,223	7,710	**6.5**	6.7
BCE Mobile	**1,209**	926	781	**30.6**	18.6
Other Canadian Telecom	**719**	702	683	**2.4**	2.8
	10,685	9,851	9,174	**8.5**	7.4
Nortel	**21,466**	17,511	14,626	**22.6**	19.7
International Telecommunications					
Bell Canada International	**418**	215	133	**94.4**	61.7
Other International Telecom	**6**	6	90	**–**	n.m.
	424	221	223	**91.9**	(0.9)
Directories	**584**	556	570	**5.0**	(2.5)
Corporate	**32**	28	31	**14.3**	(9.7)
	33,191	28,167	24,624	**17.8**	14.4

n.m.: not meaningful

Contribution to net earnings applicable to common shares

	($ millions, except per share amounts)			% Change Favourable (Unfavourable)	
	1997	1996	1995	**1997 vs. 1996**	1996 vs. 1995
Canadian Telecommunications					
Bell Canada (excluding directory operations)	**801**	663	452	**20.8**	46.7
BCE Mobile	**45**	40	32	**12.5**	25.0
Other Canadian Telecom	**16**	74	90	**(78.4)**	(17.8)
	862	777	574	**10.9**	35.4
Nortel	**581**	435	334	**33.6**	30.2
International Telecommunications					
Bell Canada International	**(56)**	(25)	(60)	**(124.0)**	58.3
Other International Telecom	**105**	35	(6)	**200.0**	n.m.
	49	10	(66)	**390.0**	n.m.
Directories	**70**	56	50	**25.0**	12.0
Corporate	**(148)**	(126)	(110)	**(17.5)**	(14.5)
Net earnings before extraordinary item	**1,414**	1,152	782	**22.7**	47.3
Extraordinary item	**(2,950)**	–	–	**n.m.**	–
Net earnings (loss)	**(1,536)**	1,152	782	**n.m.**	47.3
Dividends on preferred shares	**(74)**	(76)	(87)	**2.6**	12.6
Net earnings (loss) applicable to common shares	**(1,610)**	1,076	695	**n.m.**	54.8
Earnings (loss) per common share[1]					
Before extraordinary item	**2.11**	1.70	1.12	**24.1**	51.8
Extraordinary item	**(4.64)**	–	–	**n.m.**	–
Net earnings (loss)	**(2.53)**	1.70	1.12	**n.m.**	51.8
Excluding one-time items					
– Net earnings applicable to common shares	**1,217**	951	640	**28.0**	48.6
– Earnings per common share[1]	**1.91**	1.50	1.03	**27.3**	45.6

n.m.: not meaningful

[1] Reflects the subdivision of common shares on a two-for-one-basis on May 14, 1997.

Highlights

BCE's 1997 net earnings before extraordinary item increased by $262 million (23%) compared with 1996, reflecting:

- improved operating results at Bell Canada ($138 million);
- higher earnings at Nortel ($146 million) due to strong revenue growth across most major product lines; and,
- improved contribution from the International Telecommunications group ($39 million).

Included in BCE's 1997 net earnings before extraordinary item are one-time gains of $298 million, resulting primarily from the initial public offering of Bell Canada International and the sale of businesses and investments, offset by provisions and other charges of $175 million. This compares with one-time gains of $169 million in 1996 offset by provisions of $44 million.

Including the extraordinary item, BCE recorded a net loss of $1,536 million in 1997.

Extraordinary item and change in accounting policies

The Canadian Radio-television and Telecommunications Commission (CRTC) commenced certain proceedings in 1996 to implement a framework for increased competition and reduced regulation; decisions were issued in 1997. Most of BCE's telecommunications subsidiary and associated companies, including Bell Canada, are subject to competition in the local exchange market effective January 1, 1998. Concurrently, certain of the local services of these companies are now subject to price cap regulation rather than a rate-of-return form of regulation.

Based on these events, as at December 31, 1997, BCE determined that most of its telecommunications subsidiary and associated companies, including Bell Canada, no longer met the criteria necessary for the continued application of regulatory accounting provisions. As a result, BCE recorded, as at December 31, 1997, an after-tax non-cash extraordinary charge to income of $2,950 million for adjustments made to the net carrying values of capital assets and for the write-off of assets and liabilities specifically recognized through the regulatory process. These adjustments reflect values appropriate under generally accepted accounting principles (GAAP) for enterprises no longer subject to rate-of-return regulation (see Note 2 to the consolidated financial statements on page 44 of this annual report). The adjustment related to capital assets reflects the impact of the introduction of the next generation of technologies, changes in the expected use of existing technologies and changing market conditions.

In conjunction with the discontinued application of regulatory accounting provisions, earnings on intercompany sales from Nortel to most of BCE's telecommunications subsidiary and associated companies will be eliminated on consolidation beginning January 1, 1998.

BCE's consolidated earnings in 1998 should be positively impacted by the following changes which flow from the discontinued application of regulatory accounting provisions: lower depreciation and amortization because of the reduction in the carrying value of assets will positively impact earnings, but such impact will be partially offset by increased depreciation for certain capital assets reflecting changing useful lives and the elimination of intercompany earnings as noted above. The estimated positive net impact on earnings for 1998 will be approximately $125 to $175 million. This amount will vary depending on the level of intercompany sales by Nortel and the reductions in asset lives to be implemented by Bell Canada and the other telephone companies.

Canadian Telecommunications

Overview

BCE's Canadian Telecommunications group includes the following subsidiaries and other controlled entities: Bell Canada, BCE Mobile Communications Inc., ExpressVu Inc., NewTel Enterprises Limited, Northern Telephone Limited, Northwestel Inc., Télébec ltée, and TMI Communications and Company Limited Partnership as well as the following associated companies: Bruncor Inc., Maritime Telegraph and Telephone Company, Limited, Teleglobe Inc. and Telesat Canada. These entities provide a full range of domestic and international telecommunication services to Canadian customers. Bell Canada accounted for 82% of the group's revenues and 93% of the group's operating earnings in 1997, compared with 83% and 85%, respectively, in 1996.

Earnings

The contribution of the Canadian Telecommunications group to BCE's net earnings before extraordinary item increased by $85 million (11%) in 1997. Bell Canada's contribution, before an extraordinary charge of $2,725 million, increased by $138 million (21%). Bell Canada's operating results reflect growth in local and access service revenues and in terminal and other revenues, the favourable impact of various cost reduction programs, including the business transformation program, and increased pension credits, partially offset by higher depreciation and amortization expense. Bell Canada's consolidated rate of return on common equity before extraordinary item was 11.7% in 1997 compared with 9.8% in 1996. BCE Mobile's 1997 contribution of $45 million to BCE's net earnings is an increase of $5 million (13%) over 1996. The contribution of entities comprising Other Canadian Telecom declined in 1997 mainly reflecting BCE's $56 million share of Telesat's special charges and provisions, which relate to the write-off of its subordinated equity interest in TMI (a mobile satellite communications business) and to a change in the depreciation accounting policy method for its satellites.

Canadian Telecommunications revenues

	($ millions)			% Change Favourable (Unfavourable)	
	1997	1996	1995	**1997 vs. 1996**	1996 vs. 1995
Bell Canada (excluding directory operations)					
Local and access services	**4,324**	3,928	3,511	**10.1**	11.9
Long distance and network services	**3,064**	3,030	3,019	**1.1**	0.4
Other	**1,369**	1,265	1,180	**8.2**	7.2
	8,757	8,223	7,710	**6.5**	6.7
BCE Mobile	**1,209**	926	781	**30.6**	18.6
Other Canadian Telecom	**719**	702	683	**2.4**	2.8
	10,685	9,851	9,174	**8.5**	7.4
Number of network access services* (NAS in thousands)	**11,190**	10,866	10,593	**3.0**	2.6

* Representing, approximately, the number of lines in service.

Revenues

Revenues of the group grew by $834 million (8%) in 1997, compared with growth of $677 million (7%) in 1996. The increase in 1997 was largely attributable to local and access service revenues at Bell Canada as well as higher revenues at BCE Mobile.

Bell Canada local and access services

Local and access service revenues, which are earned principally by connecting business and residence customers to Bell Canada's network and providing them with local-area service, increased in 1997 due to:

- the net impact of a local service rate increase;
- moderate network access services growth;
- continued growth in optional services;
- payments made by users of private line digital services to access the local network; and
- the impact of the restructuring of local residential rates in December 1996.

Revenues from long distance competitors for accessing the switched local network decreased slightly in 1997 as lower mandated prices charged to competitors offset higher volumes.

Bell Canada long distance and network services

Long distance and network service revenues, which are earned by carrying long distance traffic and by providing network services such as private line and business data services, were essentially flat in 1997 compared with 1996. Long distance service revenues decreased as lower volumes of 1.6% and lower average prices of about 4.6% were only partially offset by the positive impact of the new Stentor settlement plan. The lower average prices are primarily due to increased penetration of discount calling plans, product enhancements and special promotions. Network service revenues increased in 1997, more than offsetting the decrease in long distance service revenues. The increase in network service revenues is due primarily to continued growth in digital and telemessaging services partially offset by increased Stentor settlement payments.

In 1997, long distance service volumes, as measured in conversation minutes, decreased 1.6% to 9,935 million from 10,101 million in 1996, as the impact of intense competition in the long distance market more than offset market growth driven in part by traffic stimulation from price reductions. Bell Canada is subject to intensifying competition from a few major competitors. Bell Canada estimates that competitors gained an additional 6% of the volume of the long distance market in 1997, bringing the company's estimated market share to about 63% at December 31, 1997. This compares with a loss of 5% for 1996 and an estimated market share of about 69% at year-end 1996.

Other Bell Canada revenues

The main revenue streams in this category are from competitive services, including rental, sales and maintenance of terminal equipment, Internet access, systems integration and network management services. Revenues grew $104 million in this category primarily due to increases in net sales of terminal equipment, network management services and an increase in Internet access services driven by the increase in customers for Bell Canada's Sympatico Internet service.

BCE Mobile revenues

Revenues at BCE Mobile grew significantly in 1997 reflecting higher equipment sales and growth in the number of subscribers.

In October 1997, BCE Mobile began offering personal communications services (PCS). At December 31, 1997, there were 1,221,000 cellular and PCS customers, reflecting net additions of 177,000 or a 17% increase over last year. The majority of the PCS customers at year-end had migrated from existing analog and digital services of BCE Mobile. Cellular and PCS service revenues were also affected by a decrease of 6% in revenue per average cellular and PCS subscriber.

The number of paging customers grew by 20% to 475,000 (from 396,000 a year earlier). Revenue per average pager subscriber decreased 18% mainly due to the effect of competitive pricing in the marketplace.

Revenues from equipment sales and other operations of $317 million compared to $149 million last year increased mainly due to the sale of handsets and accessories by BCE Mobile to dealers and other distributors across Canada.

Canadian Telecommunications operating expenses

	($ millions)			*% Change Favourable (Unfavourable)*	
	1997	1996	1995	**1997 vs. 1996**	1996 vs. 1995
Bell Canada (excluding directory operations)					
Depreciation and amortization	**2,614**	2,237	1,937	**(16.9)**	(15.5)
Operating expenses	**3,991**	4,024	4,074	**0.8**	1.2
	6,605	6,261	6,011	**(5.5)**	(4.2)
BCE Mobile	**1,046**	865	663	**(20.9)**	(30.5)
Other Canadian Telecom	**610**	577	521	**(5.7)**	(10.7)
	8,261	7,703	7,195	**(7.2)**	(7.1)

Bell Canada depreciation and amortization

Depreciation expense at Bell Canada of $2,350 million in 1997 compares with $2,105 million in 1996. The 12% increase is primarily due to revised depreciation rates for switching equipment, transmission equipment and outside plant. The shortening of depreciable lives is generally consistent with the trend prevailing in the Canadian telecommunications industry. Amortization of business transformation, workforce reduction and other costs was $264 million in 1997, an increase of $132 million over the previous year.

Bell Canada operating expenses

Bell Canada's operating expenses (excluding depreciation and amortization) decreased by $33 million in 1997. Costs associated with volume increases, combined with higher costs related to network management services and the provision of Internet access, have been more than offset by increased pension credits and the process improvement projects implemented as part of the business transformation program. The pension credits increased in 1997 by $177 million to $314 million reflecting experience gains, the impact of changes in estimates implemented for the first time in 1996 and the workforce reduction program.

Bell Canada consolidated – salaries and wages

	($ millions)			% Change Favourable (Unfavourable)	
	1997	1996	1995	**1997 vs. 1996**	1996 vs. 1995
Telecommunications operations	**1,668**	1,682	1,762	**0.8**	4.5
Other operations	**295**	369	333	**20.1**	(10.8)
Salaries and wages expense	**1,963**	2,051	2,095	**4.3**	2.1
Capital and process improvement projects	**260**	314	342	**17.2**	8.2
Total salaries and wages	**2,223**	2,365	2,437	**6.0**	3.0

Bell Canada consolidated – number of employees as at December 31

	Number of employees			Decrease	
	1997	1996	1995	**1997 vs. 1996**	1996 vs. 1995
Telecommunications operations	**33,822**	38,859	42,201	**(5,037)**	(3,342)
Other operations	**5,506**	6,036	6,132	**(530)**	(96)
	39,328	44,895	48,333	**(5,567)**	(3,438)

Salaries and wages expense and the number of employees declined in 1997 as a direct result of the business transformation and other workforce reduction programs.

The decrease of 6% in total salaries and wages in 1997 (which excludes any payments made under workforce reduction programs) is less than the 12% reduction in the number of employees. This results from the timing of workforce reduction programs in 1997, including the further workforce reductions announced in July, which occurred mostly in the second half of 1997.

BCE Mobile operating expenses

Operating expenses at BCE Mobile, excluding 1996 special charges of $71 million, grew by $252 million (32%) to $1,046 million in 1997, due to increases in:

- operating costs, which relate mainly to the operations of the networks ($168 million);
- selling and administrative expenses ($52 million); and
- depreciation and amortization ($32 million).

Operating costs and selling and administrative expenses increased by $149 million reflecting costs related to higher equipment sales and other revenues. The remaining increase of $71 million reflects growth in the cellular and PCS subscriber base, higher advertising and distribution support, costs necessary to launch PCS and to migrate existing subscribers to PCS and the costs of cellular hardware included in rate packages and in hardware upgrades offered to existing customers. Last year, BCE Mobile decided, effective January 1, 1997, to expense these hardware costs as they are incurred rather than amortize them over 12 to 18 months and recorded a special charge of $48 million for the write-off of the unamortized balance of hardware costs at year-end 1996.

The increase in depreciation and amortization expense mainly reflects the impact of a higher level of capital assets.

Nortel

Overview

Nortel is a leading global supplier of telecommunications equipment products. The telecommunications equipment business consists of the research and the design, development, manufacture, marketing, sale, financing, installation, servicing and support of enterprise networks, public carrier networks, wireless networks, broadband networks and other products and services. While Nortel reports its results in U.S. dollars, all amounts presented here are in Canadian dollars, except where otherwise noted.

Earnings

The increase in Nortel's contribution to BCE's 1997 net earnings of $146 million reflects improved operating earnings, lower investment and other income – net and lower interest expense. Included in Nortel's 1997 contribution is a gain of $65 million related to the disposition of Nortel's TTS Meridian Systems Inc. and Nortel Communications Systems Inc. distribution channels to WilTel Communications, LLC (the WilTel transaction) and special charges of $60 million related to the write-down of certain investments and the rationalization and/or relocation of certain manufacturing facilities. The write-down of investments relates to Nortel's minority ownership in ICL plc and to reductions in the carrying value of certain assets and/or the revaluation of goodwill associated with certain Nortel investments or operations, principally in China and Taiwan. The write-down reflected Nortel's expectations of lower future cash flows and earnings from these non-core businesses. Special charges for rationalization and/or relocation, including severance payments, mainly relate to a charge taken by Matra Communication S.A.S., Nortel's joint venture in France, to relocate a portion of its terminals manufacturing operations from Germany to France. Other affected facilities include the terminals manufacturing operations in Calgary, Alberta and Cwmcarn, Wales. The impact of the rationalization and/or relocation of the facilities is not expected to have a material impact on Nortel's future consolidated results of operations.

Revenues

Revenues increased 22.6% in 1997, primarily as a result of a volume increase of approximately 24% and the effect of a weaker Canadian dollar of about 2%, partially offset by divestitures of about 3% and by price reductions of about one per cent.

Nortel – Product line revenues

		($ millions)		*% Change Favourable (Unfavourable)*	
	1997	1996	1995	**1997 vs. 1996**	1996 vs. 1995
Enterprise networks	**5,727**	5,770	4,965	**(0.7)**	16.2
Public carrier networks	**5,633**	4,690	4,575	**20.1**	2.5
Wireless networks	**4,801**	3,109	1,852	**54.4**	67.9
Broadband networks	**4,690**	3,471	2,509	**35.1**	38.3
Other	**615**	471	725	**30.6**	(35.0)
	21,466	17,511	14,626	**22.6**	19.7

Product line revenues

Nortel has reclassified its revenues by product line to reflect the repositioning of its line of business management structure to improve customer focus and facilitate the delivery of network solutions to its diverse customer base. The primary effect of the reclassification is the evolution of switching networks into public carrier networks. As a result, product line responsibility for certain switching products in the Digital Multiplex System family of central office products, AccessNode products, Traffic Operator Position Systems and the ServiceBuilder portfolio of products have been transferred to and are now reported as broadband networks. Certain product line revenues associated with Matra Communication have also been reclassified. The 1996 and 1995 financial information has been restated to conform with the 1997 presentation.

Nortel's revenues were up substantially in 1997 as a result of higher revenues in all major product lines, except enterprise networks revenues which declined primarily due to the WilTel transaction. Software sales increased substantially in 1997 compared with 1996.

The 1997 decrease in enterprise networks revenues was due primarily to lower sales in the U.S. and in Canada resulting mainly from the WilTel transaction. Also, sales of enterprise networks rose substantially in the Caribbean and Latin America (CALA) and increased in Asia Pacific. Sales in Europe were essentially flat compared with 1996.

The increase in public carrier networks revenues in 1997 was due primarily to substantially higher sales in the U.S. Also, sales in 1997 were substantially lower in Asia Pacific, but higher in Europe, in CALA and in Canada.

Wireless networks revenues increased in 1997, due to substantially higher sales across all geographic regions.

The increase in broadband networks revenues in 1997 was a result of substantial increases in the U.S. Also, sales in 1997 were significantly higher in Europe and substantially higher in Canada, partially offset by lower sales in CALA. Broadband networks revenues in Asia were essentially flat compared with 1996.

Nortel – Geographic revenues

	($ millions)			% Change Favourable (Unfavourable)	
	1997	1996	1995	**1997 vs. 1996**	1996 vs. 1995
United States	**11,520**	9,347	7,327	**23.2**	27.6
Europe	**4,830**	4,129	3,548	**17.0**	16.4
Canada	**1,906**	1,680	1,561	**13.5**	7.6
Other international markets	**3,210**	2,355	2,190	**36.3**	7.5
	21,466	17,511	14,626	**22.6**	19.7

Geographic revenues

Revenues (based on the location of the customer rather than the location of the selling organization) increased in all markets in 1997.

Revenues in the U.S. increased 23.2% in 1997 primarily due to substantially higher sales to inter-exchange carriers, regional Bell operating companies (RBOCs), other customers and wireless operators, partially offset by lower sales to distributors.

The United States Telecommunications Act of 1996 (1996 Act), comprehensive legislation amending the Communications Act of 1934, is intended to stimulate competition in all segments of the telecommunications industry in the U.S. Nortel expects the 1996 Act to have a positive impact on telecommunications equipment suppliers generally. In addition to allowing existing industry participants to enter new businesses, the 1996 Act should result in new market entrants providing telecommunications services and an expanded market for telecommunications equipment. The United States Federal Communications Commission (FCC) has released virtually all rules required to implement the 1996 Act. It is unclear when the FCC will grant RBOCs entry into interLATA long distance markets in their respective geographic regions and it is uncertain what action the FCC may take to create competition in the local exchange market. Given these uncertainties it is difficult to assess with any precision the future impact of the 1996 Act on Nortel's consolidated operations.

Revenues in Europe (including Africa, the Commonwealth of Independent States and the Middle East) rose 17% primarily due to substantially increased sales in wireless networks and significantly higher sales in public carrier networks, broadband networks and other revenues. Enterprise networks revenues were essentially flat compared with 1996.

Revenues in Canada increased 13.5% in 1997 as a result of higher sales to wireless operators and increased sales to Bell Canada and other BCE subsidiary and associated companies.

Revenues in other international markets, comprising Asia Pacific and CALA, increased 36.3% in 1997. Revenues in Asia Pacific in 1997 rose mainly due to substantial increases in sales of wireless networks. Also, sales in 1997 were substantially lower in public carrier networks but higher in enterprise networks and in other revenues. Broadband networks revenues in Asia Pacific were essentially flat compared with 1996.

The Asia Pacific region has been, and is expected to continue to be, affected for the foreseeable future by unstable economies caused in part by the volatility of certain currencies. Due to the small proportion of Nortel's sales derived from the Asia Pacific countries affected by the economic instability, this situation is not expected to have a material adverse effect on Nortel's future consolidated results of operations. Revenues from the Asia Pacific region (excluding Japan and China) were less than 3% of Nortel's consolidated 1997 revenues.

Revenues in CALA grew due to substantial increases in sales of wireless networks, public carrier networks and enterprise networks, partially offset by lower sales in broadband networks and other revenues.

Gross margin

Gross margin in 1997 was 41.0% of revenues compared with 40.0% in 1996. Improved gross margins in wireless networks, public carrier networks and enterprise networks were partially offset by reduced margins in broadband networks and other revenues.

Although competitive pricing pressure continues to exist, Nortel has been able to offset this pressure through the sale of higher margin products and manufacturing cost-reduction programs. Gross margin is affected by the level of software sales, which increased substantially in 1997 compared with 1996. Gross margin is being negatively affected by:

- the introduction of new products and continued expansion into new markets, particularly in wireless networks; and
- the increased inclusion of products manufactured by other suppliers in network solutions offered by Nortel.

Operating expenses

Selling, general and administrative (SG&A) expense increased by 26% to $3,764 million in 1997. As a percentage of total revenues, SG&A expense increased from 17.1% in 1996 to 17.6% in 1997. This increase reflected the funding of North American and international market investment across all product lines as well as ongoing investment in computer systems infrastructure related to the global supply chain management system and the preparation for the Year 2000. SG&A expense is also being impacted by the provision for customer financing risk. Prior to January 1, 1997, customer financing risks related to PCS were reflected as a reduction in revenues. However, given the evolution of PCS technologies and its growing capital market acceptance, this risk is now more appropriately reflected in SG&A expense.

Nortel's research and development (R&D) expense in 1997 was $2,978 million, up 20.5% from $2,471 million in 1996. As a percentage of revenues, R&D expense declined from 14.1% in 1996 to 13.9% in 1997. The level of investment in both years reflects ongoing programs across all network businesses for new products, process development, advanced capabilities and services for a broad array of applications. R&D investment increased in 1997 in all product lines.

Investment and other income – net

Investment and other income – net, including equity in net earnings of associated companies, was nil in 1997 compared with $56 million in 1996. The decrease was primarily the result of substantially higher net customer financing expense partially offset by significantly higher equity earnings of associated companies. Investment and other income – net was also impacted by lower interest income in 1997 due to, among other things, lower short-term interest rates, higher foreign exchange losses and higher minority interest.

Nortel continues to expand its business globally and, as such, an increasing proportion of its business will be denominated in currencies other than U.S. dollars. As a result, fluctuations in foreign currencies may have an impact on Nortel's business and financial results. Nortel endeavours to minimize this impact through its ongoing commercial practices and by attempting to hedge its exposures to major currencies. In attempting to manage this foreign exchange risk, Nortel identifies operations and transactions that may have foreign exchange exposure, based upon, among other factors, the excess or deficiency of foreign currency receipts over foreign currency expenditures in each of Nortel's significant foreign currencies. Nortel's significant currency flows in 1997 and 1996 were in U.S. dollars, Canadian dollars, U.K. pounds and French francs. In 1997, the net impact of foreign exchange fluctuations was a loss of $70 million compared with a loss of $59 million in 1996.

Order backlog

The order backlog at December 31, 1997 was $9.37 billion, up 14% from the $8.25 billion of orders on hand at the end of 1996. The 1997 increase was due to substantial increases in broadband networks and significant increases in public carrier networks partially offset by significant declines in wireless networks. The majority of the backlog is scheduled for delivery within 12 months.

Litigation and environmental matters

See Note 18 to the consolidated financial statements on page 61 of this annual report.

International Telecommunications

Overview

In 1997, BCE reorganised this group into Bell Canada International (BCI), a public company, and BCE's other international telecom interests, primarily in Cable & Wireless Communications plc (CWC) in the U.K. and in Jones Intercable, Inc. (Jones) in the U.S.

BCE undertook the initial public offering (IPO) of BCI in the third quarter of 1997. BCE now owns a 73.7% interest in BCI with the public holding the remainder. BCI owns, develops and operates telecommunications systems in emerging markets, primarily in Latin America and the Asia Pacific region with a focus on the wireless sector. BCI also pursues opportunities in telephony and cable television to complement its presence in existing markets or as a means of entry into targeted geographic markets offering high growth potential. BCI currently provides wireless services in Colombia (through its 51.1% position (50.1% on a fully diluted basis) in subsidiary Comcel), India, China, Brazil and Taiwan, as well as cable television and private telephony services in Brazil. Comcel is BCI's most developed operation and substantially all of BCI's revenues and operating expenses are derived from, and reflect the development and expansion of, Comcel.

Other International Telecom primarily includes corporate results and the results of Jones and CWC (as well as the results of Mercury Communications Limited and Bell Cablemedia plc (BCM) prior to the merger with NYNEX CableComms under CWC on April 28, 1997).

Earnings

The International Telecommunications group contributed $49 million to BCE's net earnings in 1997, an increase of $39 million from last year.

BCE's share of BCI's 1997 loss is $56 million compared with a loss of $25 million in 1996. The loss in 1997 reflects start-up and operating expenses associated with BCI's launch of operations in India, China and Brazil. In addition, Comcel incurred higher operating costs related to substantial subscriber growth combined with higher interest expense and foreign exchange losses.

Other International Telecom contributed $105 million to net earnings in 1997 compared with $35 million in 1996. 1997 results include net one-time gains of $184 million mainly reflecting the dilution gain of $170 million as a result of BCI's IPO.

Earnings in 1996 include a gain of $50 million on the sale of CLEAR Communications Limited, New Zealand, and a $56 million gain on the reduction of the group's interest in BCM in the U.K. resulting from the issuance of BCM treasury shares.

Excluding net one-time items, results in 1997 reflect higher losses at Jones related to higher depreciation and financing costs and higher losses in the U.K. operations, partially offset by lower dividends paid to BCE.

Bell Canada International revenues

Revenues at BCI grew 94% to $418 million in 1997 compared with $215 million last year. This growth is primarily due to increased revenues at Comcel as a result of higher recurring revenues directly related to the growth in total subscribers. There were 430,635 subscribers at December 31, 1997, up 160% from 165,838 subscribers at December 31, 1996.

Litigation

See Note 18 to the consolidated financial statements on page 61 of this annual report.

Directories

Overview
The Directories group publishes alphabetical pages, Yellow Pages and other directories in Canada, the U.S., Hong Kong, Australia, the Caribbean and the Middle East.

Earnings
Earnings in 1997 increased by 25% to $70 million reflecting improved results in international operations. The 1996 results included operating losses of $9 million in India, where operations were discontinued in the first half of that year.

Corporate

Overview
BCE Inc. is a strategic management company whose major activities include strategy development, human resources management, capital allocation, goal setting and performance monitoring.

Results
Corporate expenses of $148 million include interest expenses, administrative expenses and related income taxes. Excluding 1996 one-time items, 1997 corporate expenses increased by $10 million compared with last year. Lower interest expense and higher interest and other income were more than offset by lower dividend income. Dividend income decreased in 1997 as a result of the disposition of shares of The Bank of Nova Scotia in 1996 and the redemption of preferred shares by BCI in 1996 and 1997.

Liquidity and capital resources

BCE Consolidated
(see page 40 of the consolidated financial statements)

BCE's consolidated operating cash flow increased by $918 million (19%) in 1997 to $5.7 billion, mainly reflecting improved net earnings before extraordinary item and higher depreciation and amortization expense. Cash flow from operations, however, only increased by $84 million (2%), primarily as a result of higher working capital requirements. Cash used for investments and dividends were essentially flat.

At December 31, 1997, unused bank lines of credit available to BCE, generally at the prime bank rate of interest, amounted to $5.4 billion.

Bell Canada
The principal components of Bell Canada's consolidated cash flows (including directory operations) include:

		($ millions)
	1997	1996
Net earnings (loss) before preferred dividends	**(1,837)**	754
Extraordinary item	**2,725**	–
Depreciation, amortization and other non-cash operating items	**2,186**	2,003
Operating cash flow	**3,074**	2,757
Changes in working capital and other items	**303**	107
Business transformation and other workforce reduction costs (net of deferred income taxes thereon)	**(427)**	(287)
Cash flow from operations	**2,950**	2,577
Capital expenditures, net	**(1,668)**	(1,621)
Dividends on common shares	**(822)**	(821)
Dividends on perpetual preferred shares	**(36)**	(40)
Other investing activities	**14**	109
Free cash flow	**438**	204
Financing provided (reduced) by:		
Repayment of long-term debt	**(586)**	(733)
Proceeds from issue of long-term debt	**295**	441
Redemption of retractable preferred shares	**–**	(156)
(Decrease) increase in notes payable and bank advances	**(18)**	144
(Increase) decrease in cash on hand	**(169)**	101
Other financing activities	**40**	(1)
	(438)	(204)

Bell Canada's operating cash flow increased by $317 million in 1997 due to higher operating revenues. Free cash flow increased by $234 million primarily due to higher operating revenues, lower working capital requirements and the reduction of long-term receivables, partially offset by increased net capital expenditures, investments, and business transformation and workforce reduction costs. Net capital expenditures increased in 1997 due primarily to the replacement of analog equipment with fully modern digital equipment in small and medium-sized communities. Bell Canada expects net capital expenditures to increase in 1998, driven by an information systems and information technology modernization program which encompasses a portion of Bell Canada's work related to the Year 2000 issues and the introduction of new technologies.

During 1997, Bell Canada repaid $604 million of debt comprised of $208 million of long-term debt which matured, $378 million of long-term debt which was redeemed prior to maturity and $18 million of commercial paper. Funds required to pay this debt came from external and internal sources. Funds from external sources were obtained principally through $295 million of proceeds from the public issue of debentures in Canada.

On December 31, 1997, outstanding commercial paper was $220 million in Canadian funds. Bell Canada's commercial paper program is supported by lines of credit, extended by several banks, totalling $900 million.

Under an agreement effective October 14, 1997, Bell Canada sold accounts receivable for aggregate cash proceeds of $650 million. Pursuant to the agreement, the purchaser will use the funds from collections to purchase further receivables from Bell Canada until expiration of the agreement on October 6, 2002. Bell Canada is obligated to pay monthly certain predefined fees. This agreement replaces a previous agreement dated December 21, 1990, pursuant to which $550 million of accounts receivable had been sold.

Bell Canada's debt ratio was 55.6% at December 31, 1997 compared with 46.1% at December 31, 1996. The increase is due mainly to the extraordinary charge recorded in 1997, partially offset by a decrease in outstanding debt at the end of 1997 compared with 1996.

During 1997, Moody's Investors Service (Moody's) downgraded Bell Canada's senior unsecured debt from A1 to A2 and subordinated debentures from A2 to A3. The downgrade reflects Moody's concern that Bell Canada's financial performance will remain under pressure in an increasingly competitive environment. Also during 1997, Dominion Bond Rating Service (DBRS) changed its outlook with respect to Bell Canada's debt from stable to negative.

Following the announcement of Bell Canada's extraordinary item, Moody's, DBRS, Canadian Bond Rating Service and Standard and Poor's reaffirmed Bell Canada's credit ratings.

In 1998, approximately $536 million of Bell Canada's long-term debt and other long-term liabilities will mature. Bell Canada expects to meet its cash requirements in 1998 through the anticipated proceeds from the sale of certain real estate assets (see Note 20 to the consolidated financial statements on page 63 of this annual report).

Nortel

The principal components of Nortel's consolidated cash flows include:

		($ millions)
	1997	1996
Net earnings before preferred dividends	**1,168**	850
Depreciation, amortization and other non-cash operating items	**689**	567
Operating cash flow	**1,857**	1,417
Changes in working capital and other items	**(684)**	(131)
Cash flow from operations	**1,173**	1,286
Capital expenditures	**(802)**	(823)
Investments	**(231)**	(269)
Divestitures	**542**	155
Common dividends	**(211)**	(177)
Preferred dividends	**(24)**	(5)
Decrease (increase) in long-term receivables	**269**	(181)
Other investing activities	**7**	52
Free cash flow	**723**	38
Financing provided (reduced) by:		
Increase in net borrowings	**311**	27
Issue of preferred shares	**345**	395
Issue of common shares	**239**	263
Purchase of common shares for cancellation	**(647)**	–
Increase in cash on hand	**(971)**	(723)
	(723)	(38)

Cash flow from operations of $1,173 million in 1997 represents a decrease of $113 million from 1996. Nortel continues to focus on working capital as a key component of cash management. Capital expenditures decreased in 1997 but are expected to increase substantially in 1998. Acquisitions of $231 million in 1997, a decrease of $38 million from 1996, primarily reflected Nortel's acquisition of a 20% ownership interest in Telrad Telecommunication and Electronic Industries Ltd. in January 1997, its purchase of the remaining 51% ownership interest of Sixtel S.p.A. effective December 1, 1997 from its joint venture partner, Olivetti S.p.A., and a number of small technology investments throughout 1997 as compared primarily with Nortel's acquisition of MICOM in June 1996. Proceeds on sales of businesses were $542 million in 1997, an increase of $387 million over 1996, primarily due to the WilTel transaction. Nortel received cash proceeds of $299 million plus a 30% ownership interest in WilTel Communication, LLC on the closing of the WilTel transaction.

In November 1997, Nortel issued $350 million Non-Cumulative Redeemable Class A Preferred Shares Series 7. The holders of the 14,000,000 Series 7 Shares, priced at $25 each, will be entitled to, until November 30, 2002, an annual fixed non-cumulative preferential cash dividend of $1.225 per share (4.9%), payable, if declared, quarterly.

Nortel may, under syndicated credit agreements, make long-term and short-term borrowings in an aggregate amount not to exceed US $1.5 billion. The entire amount of these committed facilities remains available. Nortel expects to meet its cash requirements from operations and conventional sources of external financing.

In January 1997, Nortel commenced a program to acquire common shares for cancellation. The Board of Directors of Nortel authorized the repurchase for cancellation of up to 16,000,000 (approximately 3%) of its common shares (restated to reflect the two-for-one stock split approved by its shareholders in December 1997) in the period from January 30, 1997 to January 29, 1998. Common shares were repurchased by Nortel to offset issuances of new common shares in order to maintain the approximate number of common shares outstanding, or when such purchases represented an appropriate use of corporate funds. At the expiration of the program on January 29, 1998, Nortel had purchased and canceled 10,182,400 common shares. On February 2, 1998, Nortel announced the commencement of a new program to repurchase for cancellation up to 6,400,000 of its common shares in the period from February 4, 1998 to February 3, 1999. As of February 25, 1998, 848,000 common shares were repurchased for cancellation under the new program.

The competitive environment in which Nortel operates requires the company and many of its principal competitors to provide significant amounts of medium-term and long-term customer financing in connection with the sale of products and services. While Nortel has generally been able to place its customer financings with third party lenders, Nortel anticipates that, due to the amount of financing it expects to provide and the higher risks typically associated with such financings (particularly where provided to start-up operations or to customers in developing countries), the amount of such financings required to be supported directly by Nortel for at least the initial portion of their term will continue to remain at a significant level in the future. At December 31, 1997, Nortel had entered into certain financing agreements for the future provision of up to about US $736 million of customer financing and had outstanding offers or commitments, subject to fulfilment of certain conditions, to provide up to approximately US $1.96 billion of additional customer financings (not all of which offers or commitments are expected to be taken up). The majority of the outstanding offers or commitments relate to wireless network solutions. Nortel expects to continue to arrange for third parties to assume customer financing obligations agreed to by Nortel and to fund other customer financings directly supported by Nortel from working capital and conventional sources of external financing in the normal course.

As a result of the maturity of Nortel's internal customer financing policies and procedures and Nortel's increased experience in the area of medium-term and long-term customer financing, Nortel began, effective April 1, 1997, to maintain a general allowance to absorb any credit-related losses in its portfolio of on-balance sheet and off-balance sheet financing assets and liabilities (the Financing Portfolio). The Financing Portfolio is primarily medium-term and long-term customer-financed receivables and guarantees. The allowance is part of the provision for uncollectibles and includes any accumulated provisions for losses which are prudent in nature and cannot necessarily be determined on an item-by-item basis. The allowance is reviewed quarterly for adequacy of impairment coverage and, in Nortel's opinion, the allowance is considered adequate to absorb any credit-related losses in the Financing Portfolio. Prior to January 1, 1997, Nortel reflected customer financing risk related to PCS contracts as a reduction in revenues. All customer financing risk is now reflected through SG&A expense.

Nortel has entered into supply contracts with customers for products and services, which in some cases involve new technologies currently being developed or which have not yet been commercially deployed by Nortel or require Nortel to build and operate networks on a turnkey basis. These supply contracts may contain delivery and installation timetables and performance criteria which, if not met, could result in Nortel paying substantial penalties or liquidated damages, the termination of the related supply contract, and/or lower shared revenues under a turnkey arrangement.

On January 9, 1998, Nortel announced the successful completion of its offer to purchase all the issued and outstanding common shares of Broadband Networks Inc. See Note 20 to the consolidated financial statements on page 63 of this annual report.

Nortel and Lagardère SCA (Lagardère) each hold, directly or indirectly, 50% of Matra Communication. Lagardère may, under specific circumstances, require Nortel to purchase all or part of its equity participation in Matra Communication at a formula price, currently estimated at approximately 1.7 billion French francs (approximately US $282 million) for all its equity participation, with consideration consisting of a long-term interest-bearing note. On December 24, 1997, Nortel and Lagardère entered into an agreement related to Matra Communication to, among other things, integrate the distribution activities of Nortel which address its public carrier and enterprise customers in France with those of Matra Communication. The parties agreed, subject to certain conditions, to sell Matra Communication's 50% interest in Matra Ericsson Telecommunication to LM Ericsson. The parties also agreed to make certain amendments to the circumstances pursuant to which Nortel would be required to purchase Lagardère's interest in Matra Communication. The contemplated transactions are scheduled to be substantially completed in the second quarter of 1998.

International Telecommunications

Bell Canada International (BCI)

In 1997, expenditures of $369 million were incurred for capital spending, investments and acquisitions. In aggregate, equity financing of $554 million was raised (including $438 million of net proceeds from BCI's initial public offering), together with debt financing of $255 million, primarily at Comcel. At year-end, BCI had cash and short-term notes receivable of $450 million. BCI expects to have a similar level (approximately $370 million) of capital expenditures, investments and acquisitions in 1998, most of which is expected to be financed through available cash balances, maturing notes receivable and cash from operations.

Depending on how BCI's development projects in Brazil or Mexico evolve, or if BCI secures new development projects or makes acquisitions, additional capital could be required. BCI intends to fund such additional capital requirements through additional borrowings or public offerings or private placements of debt or equity securities. There can be no assurance, however, that such additional sources of funds will be available on satisfactory terms, when required.

During 1997, BCI entered into a $125 million unsecured credit facility with two Canadian chartered banks. The entire amount of this facility remains available. Comcel also has available operating credit facilities totalling $114 million. As at December 31, 1997, $98 million was outstanding under these facilities.

Other International Telecom

During 1997, BCE acquired 2.76 million shares of Jones as part of its primary offering for an amount of $38 million. BCE's equity interest in Jones was 31.4% (30.3% on a fully diluted basis) as at December 31, 1997. BCE has also committed to participate in future equity financings of up to an additional US $113 million in order to finance the growth of Jones.

In 1997, proceeds of $336 million from the sale of a 5.17% interest in Mercury Communications and the receipt of a special dividend from Mercury provided the funds to make a $402 million distribution to BCE. The group realized a net gain of $34 million on the sale of Mercury.

Corporate

The principal components of BCE Inc. corporate cash flows include:

		($ millions)
	1997	1996
Dividends from subsidiary and associated companies	**1,011**	993
Interest, other corporate expenses and income taxes	**(150)**	(149)
Common dividends	**(865)**	(861)
Preferred dividends	**(74)**	(76)
Investments	**(122)**	(264)
Divestitures	**126**	334
Net redemption of preferred shares by a subsidiary	**389**	70
(Increase) decrease in advances	**(219)**	2
Other	**(29)**	(21)
Free cash flow	**67**	28
Financing provided (reduced) by:		
Decrease in debt	**(302)**	(437)
Issuance of preferred shares	**245**	197
Common shares issued		
Employee stock savings plan and exercise of options	**12**	117
Dividend reinvestment plan	**112**	100
Purchase of common shares for cancellation	**(134)**	(5)
	(67)	(28)

During 1997, BCE Inc. invested $96 million in ExpressVu, principally to fund the launch of its direct-to-home television services and its operations. Also in 1997, funds were received from the repayment of long-term notes receivable for $103 million.

On April 30, 1997, the shareholders approved a two-for-one stock split of BCE Inc.'s common shares. The split took effect on May 14, 1997 for shareholders of record at the close of business on that date.

In October 1996, BCE Inc. initiated a normal course issuer bid, which expired on October 29, 1997, to repurchase up to 10,000,000 common shares (post-split). In December 1997, BCE Inc. initiated a new normal course issuer bid to repurchase up to 10,000,000 outstanding BCE Inc. common shares, or approximately 1.6% of the shares outstanding on October 31, 1997. This normal course issuer bid, which expires on December 1, 1998, is intended to lessen the effect of dilution that occurs when additional common shares are issued through any of BCE Inc.'s employee or shareholder stock plans, or other share issues or when such purchases would represent an appropriate use of corporate funds. In 1997, approximately 3,600,000 common shares (post split) were repurchased and canceled under the normal course issuer bids for a total of $134 million. These repurchases of shares offset the effect of dilution that occurred as approximately 3,600,000 common shares were issued for $124 million in 1997 through BCE Inc.'s shareholder dividend reinvestment and stock purchase plan and its stock option plan. Up to February 25, 1998, an additional 561,000 common shares were repurchased at a cost of $27 million.

On July 31, 1997, the holders of the company's Series N and Series J Preferred Shares (both issued by private placement in 1989) exchanged these shares for $350 million of Fixed/Floating Cumulative Redeemable First Preferred Shares, Series U and $300 million of Fixed/Floating Cumulative Redeemable First Preferred Shares, Series W, respectively (see Note 14 to the consolidated financial statements on page 56 of this annual report).

In August 1997, BCE Inc. issued $300 million Series 14 Notes at a price of 99.897% of their face value with an annual interest rate of 6.2% payable semi-annually. The notes will mature on August 28, 2007. The net proceeds of the issue were used to refinance $300 million of Series 7 Notes that matured on August 28, 1997.

In November 1997, BCE Inc. filed a shelf prospectus to offer debt securities including medium term notes (the Notes) from time to time during a two-year period. The Notes may be issued in an aggregate amount of up to $1 billion (or the equivalent thereof in other currencies based on the applicable exchange rate at the time of the offering). The Notes will have maturities of not less than one year and will be either interest bearing Notes or non-interest bearing Notes and will be issued at par, at a discount or at a premium. The Notes will be unsecured, issued pursuant to a trust indenture and will rank pari passu with all other unsecured debt of BCE Inc. On February 18, 1998, BCE Inc. issued $150 million of Notes under this shelf prospectus at a price of 99.911% of their face value and with an annual interest rate of 5.55% payable semi-annually. These Notes will mature on September 4, 2001.

In December 1997, BCE Inc. issued $250 million Fixed/Floating Rate Cumulative Redeemable First Preferred Shares, Series Y. The 10,000,000 shares issued at $25 each are non-retractable and carry an initial fixed coupon of 4.6% payable quarterly until December 1, 2002. Thereafter, the Series Y preferred shares will be entitled to floating adjustable cumulative dividends payable monthly. On December 1, 2002 and on December 1 every five years thereafter, the Series Y preferred shareholders can convert their shares into fixed rate Series Z preferred shares.

BCE Inc. refinanced £125 million of 8.375% Series 9 Notes at maturity on January 30, 1998, with commercial paper. In May 1998, $300 million of 7.125% Series 10 Notes come due. Expected new investments by BCE Inc. in 1998, in addition to the acquisition of shares of The CGI Group Inc. in January 1998 (see Note 20 to the consolidated financial statements on page 63 of this annual report), include open market purchases of Nortel common shares and BCE Inc.'s participation in equity offerings by a number of subsidiaries. On February 24, 1998, BCE Mobile announced the sale of approximately 2,600,000 common shares at $35.25 per share on a bought deal basis. The closing is expected to take place on or before March 12, 1998. BCE Inc. concurrently agreed to purchase approximately 4,800,000 shares from BCE Mobile, for an amount of approximately $170 million, in order to maintain its current ownership interest of 65.3%. BCE Inc. expects to meet its cash requirements in 1998 from conventional sources of external financing.

BCE Inc. has committed credit facilities totalling $1,275 million available as back-up for its commercial paper program and general corporate purposes. The entire amount of these facilities remains available for use by BCE Inc.

Impact of the Year 2000 Issue

The "Year 2000 Issue" is a general term used to refer to certain technological and business implications of the arrival of the new millennium. This is a result of computer programs being written using two digits rather than four to define the applicable year. If they are not Year 2000 compliant, computer applications that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in other normal business activities. The Year 2000 Issue could impact most operations of BCE Inc. and its subsidiaries (BCE Group) including the network of BCE Group telecommunications companies, the products and services provided to its customers, and the BCE Group's office computer systems and support activities.

The BCE Group has determined that it will be required to modify or replace significant portions of its software so that its computer systems will properly utilize dates beyond December 31, 1999. The BCE Group presently believes that with modifications to existing software and conversions to new software, the Year 2000 Issue can be mitigated. However, if such modifications and conversions are not made, or are not completed on a timely basis, the Year 2000 Issue could have a material impact on the operations of the BCE Group.

Year 2000 programs have been established by the BCE Group with the objective of ensuring that its systems, network, products and services which are dependent on date sensitive information will continue to work smoothly after December 31, 1999 and that customer impact and cost will be minimized. Progress on the Year 2000 programs is reviewed on an ongoing basis by senior management and regular updates are provided to the Boards of Directors of BCE Group companies. Bell Canada plans to have its business critical and customer affecting systems, applications and network elements assessed and converted to address Year 2000 issues by the end of October 1998 after which Bell Canada plans to complete testing of such systems, applications and network elements to ensure that they are Year 2000 compliant when required for use. The other operating subsidiaries of the BCE Group plan to have substantially completed the assessment, conversion and testing of their business critical and customer affecting systems, applications and network elements between December 31, 1998 and March 31, 1999.

The BCE Group has commenced formal communications with its significant suppliers and large customers to determine the extent to which the BCE Group is vulnerable to those third parties' failure to remediate their own Year 2000 Issue. However, there can be no assurance that the products or systems of other companies which the BCE Group or its customers utilize or on which they rely will be converted in a timely and effective manner, or that a failure to convert by another company, or a conversion that is incompatible with the BCE Group systems, would not have a material adverse effect on the BCE Group or its customers. The BCE Group's Year 2000 programs are being

implemented to make its systems and processes compliant so that it has no material exposure to liabilities or contingencies related to the Year 2000 Issue for the products and services it has sold but there can be no assurance that this will be the case.

The BCE Group will utilize both internal and external resources to reprogram, or replace, and test its software for Year 2000 modifications and believes it has, or has access to, sufficient resources to implement its programs. The total Year 2000 project costs are estimated at approximately $600 million over the 1997 to 1999 period, of which $200 million, related to network elements and new systems platforms, will be capitalized in accordance with existing practices. The remaining $400 million will be expensed as incurred. As these cost projections are based on management's best estimates, actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties. The BCE Group incurred $85 million of these costs related to the assessment of, and preliminary efforts in connection with, its Year 2000 programs as at December 31, 1997. Of this amount, approximately $40 million has been capitalized and $45 million has been expensed.

Regulatory and competitive environment – Bell Canada

In March 1995, Bell Canada adopted a transition plan designed to restore its financial strength over the 1995-97 period. The plan anticipated further deterioration for 1995, to be followed by progressive improvement through 1996 and 1997, with a specific goal of returning to historic levels of financial performance by the end of 1997. Bell Canada's results for 1995, 1996 and 1997 were generally in line with attainment of the overall objectives of the three-year plan as revised in February 1997.

As part of the transition plan, a business transformation program was implemented in 1995 with a significant commitment of resources aimed at a redesign of work processes to enable Bell Canada to substantially reduce its cost structure while finding better and faster ways to serve its customers. While the business transformation program has ended in 1997, Bell Canada expects to continue to realize benefits related to the program in 1998 and in subsequent years. Process improvement and cost and service competitiveness are ongoing challenges in a highly competitive marketplace and the business transformation program has been catalyst for this need for ongoing improvement with projects such as Bell Canada's current information systems and information technology modernization program.

During 1997, the CRTC released several important decisions which set out the rules for the evolution to total competition in Canada's telecommunications industry. Included in these decisions were those related to the introduction of local service competition, the implementation of price cap regulation, and forbearance from long distance and private line service regulation. These decisions represent significant challenges and opportunities for Bell Canada.

Rate-of-return regulation of Bell Canada's services ended on December 31, 1997. Effective January 1, 1998, this was replaced by price cap regulation for certain utility services. The CRTC has determined interim "going-in" rates that provide for average basic residence local rate increases of $2.57. Bell Canada has increased its rates for local service customers by this amount on average effective January 1, 1998. The introduction of local service competition will increase uncertainty as to Bell Canada's local and access service revenues for 1998 and subsequent years.

The CRTC's decision to largely forbear from regulating long distance voice services and partially forbear from regulating private line services will increase Bell Canada's flexibility to respond to customer's demands and will allow Bell Canada to more effectively compete in 1998. However, the CRTC has included restrictions which continue to prevent Bell Canada from competing according to the same rules as certain competitors. Bell Canada anticipates continued pressures on long distance and network service revenues related to intense competition.

These factors along with continued intense competition across all other lines of business coupled with the rapid pace of technological change are expected to significantly impact Bell Canada's results in the future.

During 1998, Bell Canada will continue to pursue new sources of revenues through emerging technologies and will explore ways of integrating its businesses. As part of Bell Canada's commitment to focus on core business activities and dedicating resources to service its customers, Bell Canada will continue to pursue its strategy of divesting of non-core assets, and to that end has entered into an agreement to sell certain real estate assets (see Note 20 to the consolidated financial statements on page 63 of this annual report).

In early January, a severe ice storm hit sections of Bell Canada's service territory causing substantial damage to the outside plant infrastructure. Bell Canada has responded by mobilizing its resources to keep its network operational and to maintain service to customers. Although the overall additional cost incurred by Bell Canada is not yet finalized, initial estimates are that it will negatively impact the 1998 first quarter earnings and cash flow.

As a result of Bell Canada's extraordinary charge in 1997, Bell Canada anticipates a reduction in its depreciation and amortization expense in 1998. The amount of the reduction is expected to be partially offset by increased depreciation rates for certain capital assets in 1998 reflecting changing useful lives. Capital asset lives will continue to be reviewed by Bell Canada and adjusted to reflect market conditions and technological changes within the industry. Bell Canada will continue to explore ways of improving its cost structure in 1998 in order to ensure that Bell Canada can continue to effectively compete.

Consolidated Financial Statements – BCE Inc.
Consolidated Statement of Operations

For the years ended December 31	Notes	1997	1996	1995
		($ millions, except per share amounts)		
Revenues	(3)	**33,191**	28,167	24,624
Operating expenses		**25,795**	22,011	19,434
Research and development expense		**2,911**	2,471	2,134
Operating profit		**4,485**	3,685	3,056
Other income	(4)	**365**	393	238
Operating earnings		**4,850**	4,078	3,294
Interest expense – long-term debt		**1,111**	1,160	1,154
– other debt		**121**	141	172
Total interest expense		**1,232**	1,301	1,326
Earnings before income taxes, non-controlling interest and extraordinary item		**3,618**	2,777	1,968
Income taxes	(5)	**(1,522)**	(1,118)	(819)
Non-controlling interest		**(682)**	(507)	(367)
Net earnings before extraordinary item		**1,414**	1,152	782
Extraordinary item	(2)	**(2,950)**	–	–
Net earnings (loss)		**(1,536)**	1,152	782
Dividends on preferred shares		**(74)**	(76)	(87)
Net earnings (loss) applicable to common shares		**(1,610)**	1,076	695
Earnings (loss) per common share[1]				
Net earnings before extraordinary item		**2.11**	1.70	1.12
Extraordinary item		**(4.64)**	–	–
Net earnings (loss)		**(2.53)**	1.70	1.12
Dividends per common share[1]		**1.36**	1.36	1.36
Average number of common shares outstanding (millions)[1]		**636.0**	632.7	622.9

[1] Reflects the subdivision of common shares on a two-for-one basis on May 14, 1997.

Consolidated Statement of Retained Earnings

For the years ended December 31	Notes	1997	1996	1995
		($ millions)		
Balance at beginning of year		**3,173**	2,967	3,136
Net earnings (loss)		**(1,536)**	1,152	782
		1,637	4,119	3,918
Deduct:				
Dividends				
Preferred shares		**74**	76	87
Common shares		**865**	861	848
		939	937	935
Purchase of common shares for cancellation	(15)	**93**	3	–
Costs related to issuance and redemption of share capital of BCE Inc. and of subsidiaries		**9**	6	16
		1,041	946	951
Balance at end of year		**596**	3,173	2,967

Consolidated Financial Statements – BCE Inc.
Consolidated Balance Sheet

At December 31	Notes	1997	($ millions) 1996
ASSETS			
Current assets			
Cash and short-term investments, at cost (approximates market value)		**2,249**	949
Accounts receivable	(6)	**8,625**	6,892
Inventories	(6)	**2,726**	2,457
Other current assets		**985**	719
Total current assets		**14,585**	11,017
Investments in associated and other companies	(8)	**2,929**	3,235
Capital assets, net	(9)	**18,555**	22,475
Long-term notes and other receivables		**553**	960
Deferred charges	(6)	**2,088**	2,165
Goodwill	(10)	**1,588**	1,409
Total assets		**40,298**	41,261
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**8,955**	7,012
Income and other taxes payable		**372**	435
Debt due within one year	(6)	**2,402**	1,790
Total current liabilities		**11,729**	9,237
Long-term debt	(11)	**11,155**	11,813
Deferred income taxes	(2)	**454**	2,049
Other long-term liabilities		**1,540**	1,436
Total liabilities		**24,878**	24,535
Non-controlling interest	(13)	**5,611**	4,754
Preferred shares	(14)	**1,700**	1,450
COMMON SHAREHOLDERS' EQUITY			
Common shares	(15)	**6,316**	6,226
Contributed surplus		**998**	1,003
Retained earnings		**596**	3,173
Currency translation adjustment	(17)	**199**	120
Total common shareholders' equity		**8,109**	10,522
Commitments and contingent liabilities	(18)		
Total liabilities and shareholders' equity		**40,298**	41,261

On behalf of the Board of Directors:

W. Clippingdale
Director

J. E. Wood
Director

Consolidated Financial Statements – BCE Inc.
Consolidated Statement of Changes in Financial Position

	Notes			($ millions)
For the years ended December 31		**1997**	1996	1995
Cash provided by (used for) operations				
Net earnings (loss)		**(1,536)**	1,152	782
Items not affecting cash				
Extraordinary item	(2)	**2,950**	–	–
Depreciation and amortization		**3,897**	3,434	2,970
Gain on reduction of ownership in subsidiary and associated companies	(4)	**(257)**	(111)	(14)
Non-controlling interest		**682**	507	367
Deferred income taxes		**45**	(70)	(170)
Dividends received in excess of equity in net earnings (losses) of associated companies		**208**	192	17
Other non-cash items		**(334)**	(367)	(98)
Operating cash flow		**5,655**	4,737	3,854
Increase in working capital		**(860)**	(143)	(1,197)
Other items		**(405)**	(288)	(353)
Cash flow from operations		**4,390**	4,306	2,304
Cash provided by (used for) investments				
Capital expenditures		**(3,413)**	(3,128)	(2,804)
Investments		**(1,166)**	(520)	(174)
Divestitures		**891**	804	86
Long-term notes and other receivables		**421**	(273)	(64)
Other items		**231**	126	69
		(3,036)	(2,991)	(2,887)
Dividends declared				
By BCE Inc.				
Preferred shares		**(74)**	(76)	(87)
Common shares		**(865)**	(861)	(848)
By subsidiaries to non-controlling interest		**(186)**	(175)	(185)
		(1,125)	(1,112)	(1,120)
Cash provided by (used for) financing				
Notes payable and bank advances		**(218)**	146	(888)
Addition to long-term debt		**1,296**	1,256	2,187
Reduction of long-term debt		**(1,314)**	(1,726)	(853)
Redemption of retractable preferred shares by a subsidiary		**–**	(156)	(130)
Issue of preferred shares		**245**	197	590
Redemption of preferred shares		**–**	–	(618)
Issue of common shares		**124**	217	197
Purchase of common shares for cancellation		**(134)**	(5)	–
Issue of preferred and common shares by subsidiaries to non-controlling interest		**1,060**	665	74
Other items		**12**	(35)	(36)
		1,071	559	523
Net increase (decrease) in cash and short-term investments		**1,300**	762	(1,180)
Cash and short-term investments at beginning of year		**949**	187	1,367
Cash and short-term investments at end of year		**2,249**	949	187

Notes to Consolidated Financial Statements

(all tabular amounts are in millions of dollars, except per share amounts and where otherwise noted)

1. Accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), including provisions for certain regulated companies. As at December 31, 1997, BCE determined that most of its telecommunications subsidiary and associated companies no longer met the criteria necessary for the continued application of regulatory accounting provisions as a result of the introduction of price cap regulation and the opening of the local exchange market to competition.

In 1996, the Canadian Radio-television and Telecommunications Commission (CRTC) commenced certain proceedings to implement a framework for increased competition and reduced regulation for which decisions were released in 1997. Most of BCE's telecommunications subsidiary and associated companies, including Bell Canada, are subject to competition in the local exchange market effective January 1, 1998. Concurrently, local services of certain of these companies are now subject to price cap regulation rather than rate-of-return regulation.

Based on the foregoing events, BCE has adjusted the net carrying values of assets and liabilities as at December 31, 1997 to reflect values appropriate under GAAP for enterprises no longer subject to rate-of-return regulation. The adjustment has been recorded in the December 31, 1997 financial statements as an extraordinary item, net of tax (see Note 2).

All amounts are in Canadian dollars unless otherwise indicated. Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year presentation. With respect to the financial statements of BCE Inc. (the Corporation) and its consolidated subsidiaries (collectively BCE), the important differences between Canadian and United States GAAP are described and reconciled in Note 19.

Consolidation

The financial statements of entities which are controlled by the Corporation are consolidated; entities which are jointly controlled by the Corporation, referred to as joint ventures, are accounted for using the proportionate consolidation method; associated companies, which the Corporation has the ability to significantly influence, are accounted for using the equity method; investments in other companies are accounted for using the cost method. The Corporation's principal subsidiaries are set out below:

	Ownership (%)	
At December 31	**1997**	1996
Bell Canada	**100**	100
Northern Telecom Limited (Nortel)	**51.7**	51.6
BCE Mobile Communications Inc.	**65.3**	65.3
Bell Canada International Inc.	**73.7**	100

Intercompany earnings on the sales of telecommunications equipment from Nortel to most of BCE's telecommunications subsidiary and associated companies prior to 1998 (see Note 3) were deemed to be realized and were not eliminated on consolidation. The sales price of such equipment was recognized for rate-making purposes by the CRTC and other regulators. In conjunction with the discontinued application of regulatory accounting provisions, the impact of these intercompany transactions will be eliminated on consolidation beginning January 1, 1998. All other significant intercompany transactions have been eliminated in the consolidated financial statements.

1. Accounting policies *(continued)*

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation and amortization

Depreciation and amortization of capital assets are generally computed using the straight-line method, with rates based on the estimated useful lives of the assets. The expected useful lives of buildings are 20 to 40 years, and of machinery and equipment are 3 to 12 years. In 1997, the depreciation rate for plant was approximately 8.1% (7.2% in 1996).

Prior to the discontinued application of regulatory accounting provisions, depreciation rates used by most of BCE's telecommunications subsidiary and associated companies, including Bell Canada, were reviewed and approved by the CRTC as part of the rate-setting process. Effective January 1, 1997, Bell Canada, in anticipation of obtaining CRTC approval with respect to asset lives to be used for 1997, used shorter asset lives than those used in 1996. The CRTC subsequently ordered that for purposes of calculating the contribution rates in 1997, Bell Canada use asset lives approved for use in 1996. Bell Canada did not adjust its 1997 depreciation expense to reflect the CRTC approved asset lives. As a result, BCE's 1997 depreciation expense is approximately $335 million higher than the expense which would have resulted from the use of CRTC approved asset lives for 1997. In 1998, depreciation rates will reflect the impact of changes in market and technological conditions on the estimated useful lives of assets.

Research and development (R&D)

R&D costs are charged to earnings in the periods in which they are incurred, except for costs incurred pursuant to specific contracts with third parties, which are charged to earnings in the same period as the related revenue is recognized. Related investment tax credits reduce R&D expense in the same period in which the related expenditures are charged to earnings, provided there is reasonable assurance the benefits will be realized.

Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work in process inventories is comprised of material, labour and manufacturing overhead.

Translation of foreign currencies

Self-sustaining foreign operations, which comprise most of the Corporation's foreign subsidiaries and associated companies, are those whose economic activities are largely independent of those of the parent company. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. Resulting unrealized gains or losses, net of related hedging activities, are accumulated in and reported as currency translation adjustment in shareholders' equity. On reduction of such investments or on the payment of dividends by a self-sustaining foreign operation, an appropriate portion of the currency translation adjustment is recognized in earnings.

Integrated foreign subsidiaries are financially or operationally dependent on the parent company. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period. Translation exchange gains or losses of integrated foreign subsidiaries and those foreign subsidiaries operating in hyperinflationary economic environments are reflected in earnings.

Unrealized translation gains and losses on assets and liabilities denominated in foreign currencies are reflected in earnings for the year, except for gains and losses on long-term monetary assets and liabilities, such as long-term debt, which are reported as deferred charges or other long-term liabilities and amortized to earnings on a straight-line basis over the remaining lives of the related items.

1. Accounting policies *(continued)*

Financial instruments

BCE uses a combination of financial instruments to manage its interest and foreign exchange risk exposures. BCE does not actively trade derivative financial instruments.

Gains and losses on forward contracts and cross currency swaps used to hedge foreign investments are deferred and reported as part of the currency translation adjustment in shareholders' equity. Gains and losses on forward contracts and cross currency swaps used to manage exposure to foreign exchange rates are recognized on the same basis as the gains and losses on the hedged item. Amounts receivable or payable under interest rate swaps are accrued and recorded as adjustments to interest expense. Gains and losses related to hedges of anticipated transactions are recognized in earnings or recorded as adjustments of carrying values when the hedged transaction occurs. Any premiums paid with respect to financial instrument contracts are deferred and expensed to earnings over the contract period.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the cost of investments over the fair value of the net assets acquired and is being amortized to earnings on a straight-line basis, over estimated lives ranging from 10 to 40 years. The carrying value of goodwill is evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, BCE's management considers each business unit's financial condition, as well as expected pre-tax earnings, cash flows or market-related values. Any permanent impairment in the value of goodwill is written off against earnings in the year the impairment is recognized. Total goodwill amortization charged to operations, including that in equity in net earnings (losses) of associated companies, amounted to $109 million in 1997, $95 million in 1996 and $90 million in 1995.

Postemployment benefits

The Corporation and most of its subsidiaries provide various disability plans, workers' compensation and medical benefits to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement, under specified circumstances. The cost of providing these benefits is charged to earnings in the period in which they are paid.

Postretirement benefits

The Corporation and most of its subsidiaries provide pension and certain health care and life insurance benefits for employees on retirement. The accounting for pension costs is outlined in Note 16. The cost of the other benefits is generally charged to earnings in the period in which they are paid.

Income taxes

As a result of the discontinued application of regulatory accounting provisions, most of BCE's telecommunications subsidiaries, which previously used the modified liability method of accounting for income taxes, have adopted the deferral method and have adjusted their deferred income tax balance as at December 31, 1997. The adjustment is reflected in the extraordinary item (see Note 2). Under the modified liability method of accounting for income taxes, deferred income tax balances are adjusted to reflect changes to income tax rates. The resulting adjustments are taken into earnings in the year in which the changes occur.

The Corporation and its other subsidiaries also use the deferral method of accounting for income taxes. The deferred income tax balances reported on the consolidated balance sheet result from timing differences in the recognition of income and expense for financial statement and income tax purposes.

Business transformation program and workforce reduction costs

In March 1995, Bell Canada announced that, as a key element in its three-year transition plan to restore its financial strength, it would be implementing a business transformation program (business transformation) expected to result in substantial ongoing cash benefits principally through cost structure reduction. Prior to the discontinued application of regulatory accounting provisions, deferred business transformation costs, which include workforce reduction and process optimization costs incurred as part of the business transformation program, and deferred workforce reduction costs, which include costs relating to workforce reduction programs implemented prior to the implementation of the business transformation program, were amortized to earnings over 5 years. As a result of the discontinued application of regulatory accounting provisions, BCE wrote off the unamortized amount of deferred business transformation and workforce reduction costs as at December 31, 1997. The write-off is included in the extraordinary item (see Note 2). Business transformation costs also include amounts spent on capital expenditures which are included in the appropriate categories in buildings, plant and equipment and are depreciated based on their estimated useful lives.

2. Extraordinary item

As at December 31, 1997, BCE determined that most of its telecommunications subsidiary and associated companies no longer met the criteria necessary for the continued application of regulatory accounting provisions. As a result, BCE recorded an extraordinary non-cash charge of $2,950 million, net of an income tax benefit of $1,892 million and a non-controlling interest of $38 million. Also included in the extraordinary item is an after-tax charge of $97 million representing BCE's share of the related extraordinary item of its associated companies.

The operations of most of BCE's telecommunications subsidiary and associated companies no longer met the criteria for application of regulatory accounting provisions due to significant changes in regulation including the implementation of price cap regulation which replaced rate-of-return regulation effective January 1, 1998 and the concurrent introduction of competition in the local exchange market. Accordingly, BCE adjusted the net carrying values of assets and liabilities as at December 31, 1997 to reflect values appropriate under GAAP for enterprises no longer subject to rate-of-return regulation.

The determination by BCE that most of its telecommunications subsidiary and associated companies no longer met the criteria for the continuing application of regulatory accounting provisions is the result of a review, which began in 1997, to assess the impact of the introduction of price cap regulation coupled with the introduction of competition in the local exchange market. Before the advent of these two factors, accounting practices were based on a regulatory regime which provided reasonable assurance of the recovery of costs through rates set by the regulator and charged to customers. These regulatory accounting provisions resulted in the recognition of certain assets and liabilities along with capital asset lives which were substantially different from enterprises not subject to rate-of-return regulation.

The extraordinary charge consists of a pre-tax charge of $3,602 million related to capital assets and a pre-tax charge of $1,181 million to adjust the carrying values of other assets and liabilities to arrive at carrying values appropriate for enterprises not subject to rate-of-return regulation. The amount of the charge related to capital assets was determined based upon an estimate of the underlying cash flows using management's best estimate assumptions concerning the most likely course of action and other factors relating to competition, technological changes and the evolution of products and services. The net carrying values of capital assets were adjusted primarily through an increase in accumulated depreciation. The primary component of the $1,181 million charge relates to the write-off of deferred business transformation and workforce reduction costs.

3. Segmented information

BCE operates the following business segments:

Canadian Telecommunications – provides a full range of telecommunications services in Canada;

Nortel – provides research, design, development, manufacture, marketing, sale, installation, financing, support and servicing of enterprise networks, public carrier networks, wireless networks, broadband networks and other products and services;

International Telecommunications – was reorganised in 1997 into Bell Canada International (BCI), a public company, and BCE's other international telecom interests, primarily in Cable & Wireless Communications plc in the U.K. and in Jones Intercable, Inc. in the U.S. BCI owns, develops and operates telecommunications systems in emerging markets, primarily in Latin America and the Asia Pacific region with a focus on the wireless sector.

Directories – publishes telephone and other directories in Canada and internationally; and

Corporate – BCE Inc. is a strategic management company whose major activities include strategy development, human resources management, capital allocation, goal setting and performance monitoring. Corporate results include interest expense, gains and losses on disposal of corporate investments, administrative expenses and related income taxes.

3. Segmented information *(continued)*

Business segments	Canadian Telecommunications	Nortel	International Telecom-munications	Directories	Corporate	Eliminations	Total
1997							
Revenues	**10,685**	**21,466** (i)	**424**	**584**	**32**	–	**33,191**
Operating profit (loss)	**2,492**	**1,875**	**52**	**128**	**(62)**	–	**4,485**
Net earnings (loss) (ii)	**862**	**581**	**49**	**70**	**(148)**	–	**1,414**
Assets	**18,677**	**18,028**	**3,149**	**293**	**1,367**	**(1,216)**	**40,298**
Capital expenditures	**2,313**	**802**	**285**	**11**	**2**	–	**3,413**
Depreciation and amortization	**3,038**	**760**	**50**	**15**	**34**	–	**3,897**
BCE investments, at equity (iii)	**6,256**	**3,577**	**1,746**	**61**	**708**	–	**12,348**
1996							
Revenues	9,851	17,511 (i)	221	556	28	–	28,167
Operating profit (loss)	2,148	1,470	26	112	(71)	–	3,685
Net earnings (loss)	777	435	10	56	(126)	–	1,152
Assets	22,807	14,911	2,986	262	1,712	(1,417)	41,261
Capital expenditures	2,229	823	66	6	4	–	3,128
Depreciation and amortization	2,616	753	36	10	19	–	3,434
BCE investments, at equity (iii)	9,115	3,108	2,056	47	543	–	14,869
1995							
Revenues	9,174	14,626 (i)	223	570	31	–	24,624
Operating profit (loss)	1,979	1,022	4	107	(56)	–	3,056
Net earnings (loss)	574	334	(66)	50	(110)	–	782
Assets	22,606	12,888	2,662	267	2,078	(1,640)	38,861
Capital expenditures	1,923	790	76	5	10	–	2,804
Depreciation and amortization	2,242	681	25	9	13	–	2,970
BCE investments, at equity (iii)	9,033	2,617	2,083	39	874	–	14,646

(i) Nortel revenues comprise revenues from:

	1997	1996	1995
Bell Canada	**704**	733	663
Other telecommunications subsidiary and associated companies of BCE	**831**	405	344
Other customers	**19,931**	16,373	13,619
	21,466	17,511	14,626

Telecommunications equipment manufacturing sales of Nortel to BCE subsidiary and associated companies are made on arm's length terms. Sale prices and terms are based on those prevailing in the market for equivalent material and services under comparable conditions.

(ii) Represents each segment's contribution to BCE's net earnings before extraordinary item.

(iii) Investments are reported on an "equity" basis and comprise BCE's cumulative investment made in each operating business segment plus BCE's share of the cumulative segment earnings less dividends received from the segment.

3. Segmented information *(continued)*

Geographic segments (i)	Canada	U.S.	Europe	Other	Eliminations	Total
1997						
Revenues (ii)	**18,579**	**13,971**	**5,919**	**2,225**	**(7,503)**	**33,191**
Transfers between geographic areas	**(4,772)**	**(1,295)**	**(1,193)**	**(243)**	**7,503**	**–**
Revenues from customers	**13,807**	**12,676**	**4,726**	**1,982**	**–**	**33,191**
Operating earnings before R&D expense	**3,964**	**2,788**	**999**	**10**	**–**	**7,761**
Identifiable assets	**24,083**	**9,172**	**6,661**	**3,539**	**(3,157)**	**40,298**
1996						
Revenues (ii)	16,191	11,545	4,905	1,784	(6,258)	28,167
Transfers between geographic areas	(3,785)	(1,454)	(813)	(206)	6,258	–
Revenues from customers	12,406	10,091	4,092	1,578	–	28,167
Operating earnings before R&D expense	3,238	2,441	825	45	–	6,549
Identifiable assets	26,879	6,800	6,741	2,215	(1,374)	41,261
1995						
Revenues (ii)	14,939	8,937	4,052	1,541	(4,845)	24,624
Transfers between geographic areas	(3,261)	(887)	(522)	(175)	4,845	–
Revenues from customers	11,678	8,050	3,530	1,366	–	24,624
Operating earnings before R&D expense	2,884	1,881	598	65	–	5,428
Identifiable assets	26,615	5,763	6,129	2,053	(1,699)	38,861

(i) The point of origin (the location of the selling organization) of revenues and the location of the identifiable assets determine the geographic areas.

(ii) Export sales (defined as revenue in Canada from customers outside of Canada) and intercompany transfers out of Canada, amounted to $5,443 million, $4,136 million and $3,721 million for the years ended December 31, 1997, 1996 and 1995, respectively.

Earnings reconciliation	Operating earnings before R&D expense	R&D expense	Operating earnings	Interest expense, income taxes and non-controlling interest	Net earnings before extraordinary item
1997	**7,761**	**2,911**	**4,850**	**3,436**	**1,414**
1996	6,549	2,471	4,078	2,926	1,152
1995	5,428	2,134	3,294	2,512	782

4. Other income

	1997	1996	1995
Gain on reduction of ownership in subsidiary and associated companies (a)	**257**	111	14
Gain on disposal of investments			
TTS Meridian Systems Inc. and Nortel Communications Systems Inc. distribution channels (b)	**142**	–	–
Mercury Communications Limited (c)	**51**	–	–
The Bank of Nova Scotia	**–**	34	–
CLEAR Communications Limited	**–**	81	–
Clearnet Communications Inc.	**–**	60	–
Other	**–**	13	55
Equity in net earnings (losses) of associated companies	**(120)**	7	42
Interest income	**151**	162	233
Other	**(116)**	(75)	(106)
	365	393	238

(a) In 1997, BCE recognized a gain of $257 million on the reduction of its ownership, from 100% to 73.7%, in Bell Canada International (BCI), as a result of BCI's completion of an initial public offering.

In 1996, BCE recognized a gain of $85 million on the reduction of its ownership, from 42.2% to 32.5%, in Bell Cablemedia plc (BCM), that resulted from Cable & Wireless plc's investment of US $338 million to purchase treasury shares representing 22.64% of BCM's voting shares. In 1996, Nortel recognized a gain of $26 million on the reduction of its ownership, from 100% to 72.9%, in Entrust Technologies Inc., as a result of the issuance of Entrust shares.

In 1995, BCE recognized a gain of $14 million on the reduction of BCM's share of ownership in Videotron Holdings plc (Videotron) from 30.8% to 26.2%, as a result of Videotron's completion of an initial public offering of US $140 million representing approximately 15% of its share capital.

(b) In 1997, Nortel recorded a gain of $142 million related to the disposition of its interest in TTS Meridian Systems Inc. and Nortel Communications Systems Inc. distribution channels to WilTel Communications, LLC (WilTel) for net cash proceeds of $299 million and a 30% interest in WilTel (see Note 8).

(c) In January 1997, BCE recorded a gain of $51 million on the sale of a 5.17% interest in Mercury Communications Limited (see Note 8).

5. Income taxes

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes follows:

	1997	1996	1995
Earnings before income taxes, non-controlling interest and extraordinary item			
Canadian	**2,126**	1,474	1,321
Other	**1,492**	1,303	647
Total earnings before income taxes, non-controlling interest and extraordinary item	**3,618**	2,777	1,968
Statutory income tax rate in Canada	**42.3%**	42.2%	42.2%
Income taxes at Canadian statutory rates	**1,530**	1,172	830
Large corporations tax	**30**	31	37
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**(73)**	(94)	(53)
Equity in net earnings of associated companies	**51**	(3)	(18)
Gain on disposal of investments	**(53)**	(14)	(9)
Other	**37**	26	32
Total income taxes	**1,522**	1,118	819

Details of income taxes:

	1997	1996	1995
Income taxes			
Canadian	**999**	658	536
Other	**523**	460	283
	1,522	1,118	819
Income taxes			
Current	**1,440**	1,010	573
Deferred	**82**	108	246
	1,522	1,118	819

6. Supplementary balance sheet information

At December 31	**1997**	1996
Accounts receivable		
Trade and other receivables (a)	**9,027**	7,072
Provision for uncollectibles	**(402)**	(180)
	8,625	6,892
Inventories		
Raw materials	**778**	579
Work in process	**462**	470
Finished goods	**1,486**	1,408
	2,726	2,457
Deferred charges (b)		
Deferred business transformation and workforce reduction costs, net	**–**	803
Deferred pension asset (see Note 16)	**1,363**	658
Unrealized foreign currency losses, net of amortization	**141**	115
Debt issue expenses, net of amortization	**86**	94
Amounts receivable under cross currency contracts	**71**	82
Other	**427**	413
	2,088	2,165
Debt due within one year		
Bank advances	**146**	66
Notes payable	**627**	951
Long-term debt due within one year	**1,629**	773
	2,402	1,790

(a) Certain subsidiaries have programs to sell trade receivables on a recurring basis, and had sold, with limited recourse, accounts receivable for cash proceeds of $650 million and $1,202 million at December 31, 1997 and 1996, respectively.

(b) Amortization of deferred charges amounted to $460 million in 1997, $319 million in 1996 and $159 million in 1995. As a result of the discontinued application of regulatory accounting provisions, BCE wrote off the unamortized balance of certain deferred charges, principally deferred business transformation and workforce reduction costs, recognized and amortized in accordance with regulatory accounting provisions. The write-off is included in the extraordinary item (see Note 2).

7. Interests in joint ventures

Included in the December 31, 1997 consolidated financial statements are revenues of $1,287 million ($1,311 million in 1996 and $1,204 million in 1995), a net loss to BCE of $38 million ($36 million in 1996 and $53 million in 1995) and cash used for investments of $236 million ($117 million in 1996 and $90 million in 1995), representing BCE's proportionate share of interests in joint ventures. A substantial portion of the amounts proportionately consolidated relate to Nortel's interest in Matra Communication S.A.S. (Matra Communication) and to BCI's interests in Americel S.A. (Brazil) and Shandong Hehua Bell Telecommunications Engineering Company, Ltd (China). Nortel and Lagardère SCA (Lagardère) each hold, directly or indirectly, 50% of Matra Communication. Lagardère may, under specific circumstances, require Nortel to purchase all or part of its equity participation in Matra Communication at a formula price, currently estimated at approximately 1.7 billion French francs (approximately US $282 million) for all its equity participation, with consideration consisting of a long-term interest-bearing note.

8. Investments in associated and other companies

(Investments accounted for using the equity method, except where otherwise noted)

	Ownership (%)			
At December 31	**1997**	1996	**1997**	1996
Canadian Telecommunications				
Teleglobe Inc.	**23.3**	22.0	**279**	273
Maritime Telegraph and Telephone Company, Limited (a)	**34.8**	35.5	**122***	182
Bruncor Inc.	**44.9**	45.0	**147***	170
Telesat Canada (b)	**58.7**	58.7	**92**	158
ExpressVu Inc. (c)	**90.0**	39.5	**–**	14
Other			**88**	79
Investments, at cost			**108**	40
Nortel				
WilTel Communications, LLC	**30.0**	–	**90**	–
Telrad Telecommunication and Electronic Industries Ltd.	**20.0**	–	**69**	–
FIMACOM			**–**	25
ICL plc, at cost			**129**	157
Investments, at cost			**104**	81
Other			**–**	4
International Telecommunications				
Cable & Wireless Communications plc (d)	**14.2**	–	**1,138**	–
Mercury Communications Limited (d)	**–**	20.0	**–**	1,153
Bell Cablemedia plc (d)	**–**	32.5	**–**	378
Jones Intercable, Inc. (e)	**31.4**	31.9	**443**	417
Other			**21**	37
Investments, at cost			**35**	4
Directories			**11**	14
Corporate				
Investments, at cost			**53**	49
Total investments in associated and other companies (f)			**2,929**	3,235

* As a result of the discontinued application of regulatory accounting provisions, BCE's investments in Maritime Telegraph and Telephone and Bruncor were reduced by $66 million and $31 million, respectively, representing BCE's share of the extraordinary item of these associated companies (see Note 2).

(a) **Maritime Telegraph and Telephone (MT&T)**
BCE's 34.8% (35.5% in 1996) interest represents 10,254,058 common shares in 1997 and 1996. A Nova Scotia statute provides that no more than 1,000 shares of MT&T may be voted by any one shareholder.

(b) **Telesat Canada**
At December 31, 1997 and December 31, 1996, BCE's voting interest was 26.1%.

(c) **ExpressVu**
During 1997, BCE increased its ownership interest in ExpressVu to 90% for a total cash consideration of $96 million and the transfer of 5.3 million shares that were held by an independent trustee at December 31, 1996 and, as a result, ExpressVu is now consolidated.

(d) **Cable & Wireless Communications plc**
On October 22, 1996, an announcement was made by BCI, Cable & Wireless plc (Cable & Wireless) and NYNEX Corporation of proposals to combine, through a series of transactions, the operations of Mercury Communications Limited (Mercury) with those of Bell Cablemedia (BCM), as enlarged by the acquisition of Videotron Holdings plc (Videotron), and NYNEX CableComms Group, to create Cable & Wireless Communications plc (CWC).

8. Investments in associated and other companies *(continued)*

After the acquisition by BCM of all of the issued equity share capital of Videotron not already owned by it and the purchase by Cable & Wireless of 5.17% of the equity of Mercury (see Note 4), CWC made an offer on March 21, 1997 to purchase all of the outstanding Ordinary Shares and American Depositary Shares (ADS) of BCM and all outstanding units and ADSs of NYNEX CableComms Group Inc./plc (the Offers). The receipt of acceptances in excess of 90% from the respective offerees was one of the conditions precedent to the completion of the merger of Mercury, BCM and NYNEX CableComms under CWC to create a provider of integrated telecommunications, information and entertainment services in the U.K. On April 25, 1997, acceptance of the Offers exceeded the 90% threshold and the Offers were declared unconditional. BCE holds indirectly approximately 14.2% of the fully diluted share capital of CWC. On April 28, 1997, the shares of CWC were listed on the London and New York Stock Exchanges.

(e) **Jones**
During 1997, BCE acquired 2.76 million shares of Jones as part of its primary offering for $38 million and maintained its fully diluted equity interest at 30.3%. In 1994, BCE paid US $55 million for an option to acquire a controlling interest in Jones. This option will be exercisable from December 20, 2001 to December 20, 2002, or earlier under certain circumstances. BCE has also committed to participate in future equity financings for up to an additional US $113 million in order to finance the growth of Jones.

(f) The goodwill implicit in investments in associated and other companies amounted to $799 million at December 31, 1997 ($911 million in 1996).

9. Capital assets, net

At December 31		1997		1996
	Cost	Net book value	Cost	Net book value
Plant	**25,414**	**10,422**	25,484	14,406
Machinery and equipment	**10,421**	**4,136**	9,706	4,253
Buildings	**4,443**	**2,736**	4,157	2,692
Plant under construction	**461**	**461**	327	327
Land	**251**	**251**	258	258
Other	**626**	**549**	592	539
	41,616	**18,555**	40,524	22,475

Depreciation and amortization of capital assets for the year 1997 amounted to $3,418 million ($3,080 million in 1996 and $2,790 million in 1995). As a result of the discontinued application of regulatory accounting provisions, BCE recorded a pre-tax charge of $3,602 million related to capital assets. The charge primarily relates to digital multiplex systems, outside plant mainly copper lines, application software, transmission equipment and inside wiring. The adjustment has been reflected primarily through an increase in accumulated depreciation (see Note 2). Capital assets lives are being reduced, where applicable, reflecting technological change and market conditions.

10. Goodwill

In January 1997, Nortel commenced a program to acquire common shares for cancellation. Nortel repurchased 9,970,600 common shares, on a post-split basis, under this program in 1997 for a total cash consideration of $647 million resulting in an addition to goodwill of $272 million, which is being amortized on a straight-line basis over 20 years.

11. Long-term debt

At December 31	**1997**	1996
BCE Inc.		
8.5% Series 6 Notes due 1997	–	250
9% Series 7 Notes due 1997	–	300
8.375% Series 9 Notes (£ 125 million) due 1998 (a)	**293**	293
7.125% Series 10 Notes due 1998, swapped to U.K. pounds principal and interest of 6.815% (a)	**300**	300
8.75% Series 11 Notes due 1999	**200**	200
7.813% Series 12 Notes (£ 50 million) due 1999, swapped to Canadian dollar principal and interest of 8.82%	**117**	117
9.95% Series 13 Notes due 2000	**173**	173
8.95% Series 8 Notes due 2002, swapped to U.K. pounds principal and interest of 9.232% (a)	**300**	300
LIBOR* plus 0.225% term credit facility (US $400 million) due 2002, swapped to Canadian dollar principal and interest with fixed rate of 7.722% to 2000	**572**	548
6.2% Series 14 Notes due 2007	**300**	–
Total – BCE Inc.	**2,255**	2,481

* London Interbank Offered Rate

On November 5, 1997, BCE Inc. filed a shelf prospectus with the various securities commissions in all provinces of Canada enabling it to issue up to $1.0 billion of debt securities, including medium term notes (Notes), from time to time, over a two-year period. The Notes issued will be unsecured, issued pursuant to a trust indenture and will rank "pari passu" with all other unsecured debt of BCE Inc. At December 31, 1997, no amount was drawn. On February 18, 1998, BCE Inc. issued $150 million of Notes maturing on September 4, 2001 with an annual interest rate of 5.55% under this shelf prospectus.

At December 31	Weighted average rate of interest %	**1997**	1996
Bell Canada			
Debentures and notes (b)			
Due 1997	8.43	–	175
1998	8.61	**475**	475
1999	9.60	**600**	600
2000	9.38	**519**	533
2001	7.30	**150**	150
2002	9.50	**150**	150
2003 – 2012	9.90	**2,440**	2,805
2013 – 2054	9.64	**1,225**	1,075
Medium Term Debentures (c)			
Due 2002	5.65	**150**	–
Subordinated debentures			
Due 2026 – 2031	8.21	**275**	275
Other	–	**57**	47
Total – Bell Canada		**6,041**	6,285

11. Long-term debt *(continued)*

At December 31	1997	1996
Nortel		
7.45% Notes due 1998, swapped to U.K. pounds principal and interest with average floating rate of 7.79% (d)	**300**	300
8.75% Notes (US $250 million) due 2001, swapped to U.K. pounds principal and interest of 10.75% (d)	**359**	342
Term credit facility (US $120 million) due 2001 with an average floating interest rate of 5.97% based on LIBOR	**172**	82
6.875% Notes (US $300 million) due 2002	**431**	410
6% Notes (US $200 million) due 2003	**287**	274
7.4% Notes (US $150 million) due 2006 (e)	**215**	205
6.875% Notes (US $200 million) due 2023	**287**	274
7.875% Notes (US $150 million) due 2026 (e)	**215**	205
Other	**301**	190
Total – Nortel	**2,567**	2,282
Other subsidiaries	**1,921**	1,538
Total long-term debt	**12,784**	12,586
Less: due within one year	**1,629**	773
Long-term debt	**11,155**	11,813

(a) Series 8, Series 9 and Series 10 Notes are designated as a hedge against foreign currency exposure relating to BCE's investments in the U.K.

(b) Debentures and notes include US $400 million maturing in 2006 and 2010; 300 million Swiss francs, due 2003, and Canadian $380 million, due 1998 and 1999, swapped into U.S. dollar obligations as to principal and interest obligations; and 150 million German marks, due 2000, swapped into Canadian dollar obligations as to principal and interest obligations. In addition, $875 million of long-term debt includes call options permitting early repayment of the principal amounts upon payment of certain premiums.

(c) On November 28, 1997, Bell Canada filed a shelf prospectus with the various securities commissions in all provinces of Canada enabling it to issue up to $1.5 billion of debt securities, including medium term debentures (MTN Debentures), from time to time, over a two-year period. The MTN Debentures will be unsecured, issued pursuant to a trust indenture and will rank "pari passu" with all other unsecured and unsubordinated debt of Bell Canada. At December 31, 1997, Bell had drawn down $150 million.

(d) Designated as a hedge against foreign currency exposure relating to Nortel's net investment in the U.K.

(e) Notes issued by Northern Telecom Capital Corporation, an indirect wholly-owned finance subsidiary of Nortel. The payment of principal of, premium, if any, and interest on, such Notes is wholly and unconditionally guaranteed by Nortel.

Long-term debt maturities during each of the next five years are summarized below:

Years ending December 31	1998	1999	2000	2001	2002
BCE Inc.	593	317	173	–	872
Bell Canada	503	615	521	152	303
Nortel	320	50	105	554	497
Other	213	53	374	88	250
Total maturities	1,629	1,035	1,173	794	1,922

At December 31, 1997, unused bank lines of credit, for general corporate purposes and to support commercial paper borrowings, generally at the banks' prime rate of interest, amounted to approximately $5.4 billion.

12. Financial instruments

Risk management

BCE Inc. uses forward contracts and cross currency swaps to hedge a portion of its foreign currency denominated long-term debt against fluctuations in foreign exchange rates. BCE Inc. uses a combination of foreign currency denominated long-term debt, cross currency swaps and forward contracts to limit its exposure to fluctuations in foreign exchange rates on its investments. The Corporation also uses interest rate swaps to manage its exposure to interest rate fluctuations and reduce its financing costs.

Bell Canada uses cross currency swaps, forward contracts and interest rate swaps to manage its foreign currency and interest rate positions associated with its debt instruments. Bell Canada generally uses these derivative contracts to reduce its financing costs and to diversify Bell Canada's access to capital markets.

Nortel enters into cross currency swaps and forward contracts to limit its exposure to fluctuations in foreign exchange rates on its investments in the U.K. and France. Nortel enters into option contracts to limit its exposure to foreign exchange fluctuations on future revenue and expense streams. Nortel also enters into forward contracts to limit its exposure to foreign exchange fluctuations on existing assets and liabilities and on future revenue and expense streams. Nortel also uses interest rate swaps to minimize financing costs on long-term debt and to manage the risk of interest rate fluctuations on existing liabilities and receivables.

BCI operates internationally and as such is exposed to fluctuations in foreign exchange rates. BCI does not currently use financial instruments to limit its exposure to fluctuations in foreign exchange rates on its investments or long-term debt, or to manage the risk of interest rate fluctuations on existing long-term debt.

Credit risk

BCE is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties. BCE deals only with highly-rated financial institutions and monitors the credit risk and credit standing of counterparties on a regular basis. BCE manages its exposure so that there is no substantial concentration of credit risk resulting from interest rate swaps, cross currency swaps, forward contracts and option contracts. In addition, BCE is exposed to credit risk from customers. However, BCE's businesses have a large number of diverse customers which minimizes the concentration of this risk.

Currency exposures

The terms of the cross currency contracts essentially match the terms of the hedged item. The following table summarizes the debt-related strategies used to manage the exposure to fluctuations in foreign exchange rates, as at December 31, 1997:

		Before-hedging strategies		**After-hedging strategies**	
	Total	Canadian dollars	Foreign currency	Canadian dollars	Foreign currency
Long-term debt					
BCE Inc.	2,255	1,273	982	1,362	893
Bell Canada	6,041	5,023	1,018	4,762	1,279
Nortel	2,567	300	2,267	–	2,567
Other subsidiaries	1,921	1,023	898	1,239	682
Total long-term debt	12,784	7,619	5,165	7,363	5,421
Notes payable	627	428	199	428	199

Principal amounts to be received under cross currency swaps and forward contracts mainly include £ 182 million, DM 150 million, SF 300 million, US $1,606 million and $2,053 million.

Principal amounts owed under cross currency swaps and forward contracts mainly include £ 908 million, FF 2,219 million, US $950 million and $1,152 million.

12. Financial instruments *(continued)*

Interest rate exposures

Substantially all long-term debt is issued at fixed interest rates and notes payable are issued at market rates for commercial paper. The terms of the interest rate swaps are related to the hedged item and are principally between one and 10 years in duration. The following table summarizes the debt and preferred share-related strategies used to manage the exposure to interest rate fluctuations and reduce financing costs, as at December 31, 1997:

		Before-hedging strategies		After-hedging strategies	
	Total	Fixed interest rate	Floating interest rate	Fixed interest rate	Floating interest rate
Long-term debt					
BCE Inc.	2,255	1,683	572	2,255	–
Bell Canada	6,041	6,041	–	6,041	–
Nortel	2,567	2,097	470	1,797	770
Other subsidiaries	1,921	1,557	364	1,557	364
Total long-term debt	12,784	11,378	1,406	11,650	1,134
Preferred shares	1,700	1,700	–	1,050	650
Notes payable	627	424	203	111	516

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. Fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments have not been reflected in fair values.

Therefore, due to the use of subjective judgement and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

At December 31, 1997 and 1996, the carrying value of all financial instruments approximates fair value with the following exceptions:

	1997		1996	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt due within one year	**1,629**	**1,641**	773	789
Long-term debt	**11,155**	**12,384**	11,813	13,063
Retractable preferred shares (a)	**129**	**148**	122	138
Derivative financial instruments, net asset (liability) position:				
Cross currency swaps (b)	**(74)**	**(49)**	(122)	(131)
Forward contracts (b)	**(9)**	**(26)**	(56)	(40)
Interest rate swaps	**–**	**3**	–	(16)
Options	**–**	**(34)**	–	(12)

Accounts receivable securitization balances are summarized in note 6. Long-term receivables of Nortel of approximately $870 million and $367 million had also been sold, with limited recourse, as at December 31, 1997 and 1996, respectively.

(a) Preferred shares, having liability characteristics, issued by subsidiaries to non-controlling interest, are included in other long-term liabilities on the balance sheet, with dividends treated as interest expense.

(b) Amounts receivable or payable under cross currency contracts are included in current assets, deferred charges or liabilities, as appropriate.

Guarantees

At December 31, 1997, BCE had outstanding guarantees of $450 million ($550 million in 1996) representing financial, bid, performance and advance payment guarantees issued in the normal course of business.

Customer financing

Pursuant to certain financing agreements, Nortel is committed to provide future financing in connection with purchases of Nortel's products and services. These commitments totalled approximately US $700 million as at December 31, 1997 (US $2.1 billion in 1996).

13. Non-controlling interest

At December 31	1997	1996
Non-controlling interest in consolidated subsidiaries:		
Nortel	**3,503**	3,128
BCE Mobile Communications Inc.	**215**	190
NewTel Enterprises Limited	**116**	147
Bell Canada International Inc.	**249**	116
Other	**13**	1
	4,096	3,582
Preferred shares issued by subsidiaries:		
Bell Canada	**630**	630
Nortel	**850**	500
Other	**35**	42
	1,515	1,172
	5,611	4,754

14. Preferred shares

Authorized

The articles of incorporation of the Corporation provide for an unlimited number of First Preferred Shares and Second Preferred Shares. The articles authorize the Directors to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching to them.

At December 31	1997		1996	
Outstanding	Number of shares	Stated capital *($ millions)*	Number of shares	Stated capital *($ millions)*
Cumulative Redeemable First Preferred Shares				
Series P shares (i)	**16,000,000**	**400**	16,000,000	400
Series Q shares (ii)	**8,000,000**	**200**	8,000,000	200
Series S shares (ii)	**8,000,000**	**200**	8,000,000	200
Series U shares (iv)	**14,000,000**	**350**	–	–
Series W shares (iv)	**12,000,000**	**300**	–	–
Series Y shares (ii)	**10,000,000**	**250**	–	–
Series J shares (vi)	–	–	600	300
Series N shares (vi)	–	–	700	350
		1,700		1,450

All series outstanding as at December 31, 1997 are non-voting except in certain circumstances when the holders of these shares are entitled to one vote per share.

(i) Series P shares

Holders of Series P shares, which were issued in June 1995 at $25 per share, are entitled to fixed cumulative annual dividends of $1.60 per share (6.4% yield) payable quarterly. These shares are convertible, at the holder's option, on or after July 15, 2002 on the 15th day of January, April, July and October of each year, into that number of common shares of the Corporation determined by dividing $25 by the greater of $3 and 95% of the weighted average trading price of the Corporation's common shares determined in the manner set out in the Articles of Amendment creating the Series P shares, subject to the right of the Corporation to redeem or to find substitute purchasers for such shares. The Corporation may, on or after April 15, 2002, redeem the Series P shares at $25 per share or may, subject to the approval of certain stock exchanges, convert such shares into common shares of the Corporation on the same basis as described above. The Corporation may, at any time, elect to create a further series of preferred shares into which the Series P shares will be convertible on a share-for-share basis at the option of the holder.

14. Preferred shares *(continued)*

(ii) Series Q, Series S and Series Y shares

Holders of Series Q, Series S and Series Y shares, which were issued in November 1995, October 1996 and December 1997, respectively, at $25 per share, are entitled to quarterly payments of fixed cumulative annual dividends of, in the case of the Series Q shares, $1.725 per share (6.9% yield) until December 1, 2000, in the case of the Series S shares, $1.32 per share (5.28% yield) until November 1, 2001, and in the case of the Series Y shares, $1.15 per share (4.6% yield) until December 1, 2002. Thereafter, holders of Series Q, Series S and Series Y shares will be entitled to floating adjustable cumulative dividends payable monthly commencing, in the case of Series Q shares, with the month of January 2001, in the case of the Series S shares, December 2001, and in the case of the Series Y shares, January 2003, with the annual floating dividend rate for the first month equal to 80% of Prime, as defined in the Articles of Amendment creating the Series Q, Series S and Series Y shares. The dividend rate, thereafter, will float in relation to changes in Prime and will be adjusted upwards or downwards on a monthly basis based on the market value of the Series Q, Series S and Series Y shares. These shares are convertible, subject to certain conditions, at the holder's option, in the case of the Series Q shares, on December 1, 2000 and on December 1 every five years thereafter, in the case of the Series S shares, on November 1, 2001 and on November 1 every five years thereafter, and in the case of the Series Y shares, on December 1, 2002 and on December 1 every five years thereafter, into Cumulative Redeemable First Preferred Shares Series R, Series T or Series Z, respectively, described in (iii) below of the Corporation on a share-for-share basis. If the Corporation determines that there would be less than one million Series Q, Series S or Series Y shares outstanding on a conversion date, the remaining number of shares shall automatically be converted into an equal number of Series R, Series T or Series Z shares, respectively. If the Corporation determines that there would be less than one million Series R, Series T or Series Z shares outstanding on a conversion date, then no Series Q, Series S or Series Y shares, as the case may be, shall be converted. The Corporation may redeem at $25 per share the Series Q, Series S and Series Y shares on December 1, 2000, on November 1, 2001 and on December 1, 2002, respectively, and at $25.50 per share at any time thereafter.

(iii) Series R, Series T and Series Z shares

On October 25, 1995 and September 25, 1996, respectively, the Corporation authorized the creation of 8,000,000 Cumulative Redeemable First Preferred Shares of each Series R and Series T. On December 3, 1997, the Corporation authorized the creation of 10,000,000 Cumulative Redeemable First Preferred Shares Series Z. No Series R, Series T or Series Z shares are currently outstanding. Series R, Series T and Series Z shares may not be issued by the Corporation until December 1, 2000, November 1, 2001 and December 1, 2002, respectively. Holders of Series R, Series T and Series Z shares will be entitled to quarterly payments of fixed cumulative dividends. The dividend rate applicable to the Series R, Series T and Series Z shares shall be set by the Corporation prior to the start of each five-year dividend period starting with the five-year dividend period beginning, in the case of the Series R shares, on December 1, 2000, in the case of the Series T shares, November 1, 2001, and in the case of the Series Z shares, December 1, 2002. Each five-year fixed dividend rate selected by the Corporation shall not be less than 80% of the Government of Canada Yield, as defined in the Articles of Amendment creating the Series R, Series T and Series Z shares. The Series R, Series T and Series Z shares will be convertible, subject to certain conditions, at the holder's option, into Series Q , Series S and Series Y shares, respectively, on a share-for-share basis, in the case of the Series R shares, on December 1, 2005 and on December 1 every five years thereafter, in the case of the Series T shares, on November 1, 2006 and on November 1 every five years thereafter, and in the case of the Series Z shares, on December 1, 2007 and on December 1 every five years thereafter. The Corporation may redeem at $25 per share, the Series R shares on December 1, 2005 or on December 1 every five years thereafter, the Series T shares on November 1, 2006 or on November 1 every five years thereafter, and the Series Z shares on December 1, 2007 or on December 1 every five years thereafter.

(iv) Series U and Series W shares

Holders of Series U and Series W shares, which were issued in July 1997 in exchange for the Series N and J shares, respectively, are entitled, until March 1, 2007 and September 1, 2007, respectively, to quarterly payments of fixed cumulative annual dividends of, in the case of the Series U shares, $1.385 per share (5.54% yield), and in the case of the Series W shares, $1.3625 per share (5.45% yield). Thereafter, if on March 1, 2007 and on September 1, 2007, respectively, the Series U and Series W shares are not listed on the Montreal or Toronto stock exchange, and until such listing, if any, floating cumulative dividends will be payable monthly commencing, in the case of the Series U shares, on April 12, 2007, and in the case of the Series W shares, on October 12, 2007, with the annual floating dividend rate equal to the 30-day Bankers' Acceptance Rate, as defined in the Articles of Amendment creating the Series U and Series W shares, plus 0.40%. If on March 1, 2007 and on September 1, 2007, respectively, or any time thereafter, the Series U and Series W shares are listed on the Montreal or Toronto stock exchange, holders of Series U and Series W shares will be entitled to floating adjustable cumulative dividends payable monthly commencing, in the case of the Series U shares, on the later of April 12, 2007, and the twelfth day of the first full calendar month following such listing, and in the case of the Series W shares, on the later of October 12, 2007 and the twelfth day of the first full calendar month following such listing, with the annual floating dividend rate for the first month equal to 80% of Prime, as defined in the Articles of Amendment creating the Series U and Series W shares. The dividend rate will float in relation to changes in Prime and will be adjusted upwards or downwards on a monthly basis based on the market value of the Series U and Series W shares. These shares are convertible, subject to certain conditions, at the holder's option, in the case of the Series U shares, on March 1, 2007 and on March 1 every five years thereafter, and in the case of the Series W shares, on September 1, 2007 and on September 1 every five years thereafter, into Cumulative Redeemable First Preferred Shares, Series V or Series X, respectively, described in (v) below of the Corporation on a share-for-share basis. If the Corporation determines that there would be less than one million Series U or Series W shares outstanding on a conversion date, the remaining number of shares shall automatically be converted into an equal number of Series V or Series X shares, respectively. If the Corporation determines that there would be less than one million Series V or Series X shares outstanding on a conversion date, then no Series U or Series W shares, as the case may be, shall be converted. On and after March 1, 2007 and September 1, 2007, respectively, the Corporation may redeem the Series U and Series W shares at $25 per share. However, if the Series U and Series W shares are listed on the Montreal or Toronto stock exchange, the redemption price after March 1, 2007 and September 1, 2007, respectively, shall be $25.50 per share.

The Corporation has entered into interest rate swap agreements until 2007 to effectively convert the Series U and Series W fixed dividends to floating rate dividends. As a result of these swap arrangements, the effective cost is equal to the 90-day Bankers' Acceptance Rate less 0.675% for the Series U shares and is equal to the 90-day Bankers' Acceptance Rate less 0.594% for the Series W shares. The quarterly after-tax differential to be paid or received under the interest rate swaps is treated as an adjustment to the underlying dividends.

(v) Series V and Series X shares

On June 25, 1997, the Corporation authorized the creation of 22,000,000 and 20,000,000 Cumulative Redeemable First Preferred Shares, Series V and Series X, respectively. No Series V or Series X shares are currently outstanding. Series V and Series X shares may not be issued by the Corporation until March 1, 2007 and September 1, 2007, respectively. Holders of Series V and Series X shares will be entitled to quarterly payments of fixed cumulative dividends. The dividend rate applicable to the Series V and Series X shares shall be set by the Corporation prior to the start of each five-year dividend period starting with the five-year dividend period beginning, in the case of the Series V shares, on March 1, 2007, and in the case of the Series X shares, on September 1, 2007. Each five-year fixed dividend rate selected by the Corporation shall not be less than 80% of the Government of Canada Yield, as defined in the Articles of Amendment creating the Series V and Series X shares. The Series V and Series X shares will be convertible, subject to certain conditions, at the holder's option, into Series U and Series W shares, respectively, on a share-for-share basis, in the case of the Series V shares, on March 1, 2012 and on March 1 every five years thereafter, and in the case of the Series X shares, on September 1, 2012 and on September 1 every five years thereafter. The Corporation may redeem at $25 per share the Series V shares on March 1, 2012 or on March 1 every five years thereafter and the Series X shares on September 1, 2012 or on September 1 every five years thereafter.

(vi) Series J and Series N Shares

During 1997, the Series J and Series N shares were exchanged for Series W and Series U shares, respectively.

15. Common shares

All references to number of common shares, stock options and per share amounts have been restated to reflect the subdivision of common shares on a two-for-one basis on May 14, 1997.

Authorized: an unlimited number of common shares.

At December 31	**1997**		1996	
	Number of shares	Stated capital *($ millions)*	Number of shares	Stated capital *($ millions)*
Outstanding	**635,949,923**	**6,316**	635,930,724	6,226

Changes in the number of common shares outstanding during the last three years:

	1997		1996		1995	
	Number of shares	Stated capital *($ millions)*	Number of shares	Stated capital *($ millions)*	Number of shares	Stated capital *($ millions)*
Shares issued						
For cash						
Shareholder Dividend Reinvestment and Stock Purchase Plan	**3,054,189**	**113**	3,751,842	100	4,457,902	98
Employees' Savings Plan	–	–	3,823,512	99	4,466,998	97
Exercise of options	**525,313**	**12**	857,082	18	107,554	2
Conversion of common share purchase warrants and preferred shares	–	–	–	–	28,400	1
Shares purchased for cancellation	**(3,560,303)**	**(35)**	(143,000)	(2)	–	–
	19,199	**90**	8,289,436	215	9,060,854	198

During the year ended December 31, 1997, the Corporation purchased 3,560,303 of its common shares (143,000 in 1996), under a normal course issuer bid, for an aggregate price of $134.1 million ($4.6 million in 1996), of which $5.6 million was charged to contributed surplus ($0.2 million in 1996) and $93.4 million was charged to retained earnings ($2.9 million in 1996).

Shareholder Dividend Reinvestment and Stock Purchase Plan (DRP)

The Corporation's DRP allows holders of its common shares to invest cash dividends and optional cash payments in newly issued common shares of the Corporation. Participants may purchase shares quarterly with common share cash dividends; in addition, participants may purchase shares monthly with optional cash payments up to an aggregate sum of $20,000 in each 12-month period ending October 15. Optional cash payments amounted to $29 million in 1997, $17 million in 1996 and $13 million in 1995.

The issue price of DRP shares is the average of the closing prices for a board lot trade of the common shares of the Corporation on the Montreal and Toronto stock exchanges on the five trading days immediately preceding the investment date. No price discount is offered to participants. Ten per cent of the number of outstanding common shares were enrolled in the DRP as at December 31, 1997 (9.5% as at December 31, 1996, and 9.8% as at December 31, 1995).

At December 31, 1997, 3,486,861 common shares were reserved for issuance under the DRP.

15. Common shares *(continued)*

Employees' Savings Plan (ESP)

The ESP enables employees of the Corporation and its participating subsidiaries to acquire BCE Inc. common shares through regular payroll deductions plus employer contributions, if applicable. The purpose of the ESP is to encourage employees to own shares of the Corporation. Participation at December 31, 1997, was 39,825 employees (38,783 employees in 1996 and 42,544 employees in 1995).

Common shares of the Corporation are purchased by the ESP Trustee on behalf of the participants on the open market, by private purchase or from BCE Inc., as determined from time to time by BCE Inc. The total number of ESP shares purchased on behalf of employees, including purchases from the Corporation shown in the table on page 58, was 4,723,677 during 1997, 6,259,192 in 1996 and 8,104,700 in 1995.

At December 31, 1997, 10,838,526 common shares were reserved for issuance under the ESP.

Stock options

Under the Long-Term Incentive (Stock Option) Program (1985), options may be granted to officers and other key employees of the Corporation and of its subsidiaries to purchase common shares of the Corporation at a subscription price of 100% of market value on the last trading day prior to the effective date of the grant. The options are exercisable during a period not to exceed ten years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of the grant. At December 31, 1997, a total of 2,329,629 options were outstanding (1,872,260 in 1996 and 2,387,072 in 1995) at prices ranging between $18.4062 and $42.25 ($18.4062 and $33.35 in 1996, and $18.4062 and $24.3437 in 1995), of which 738,875 options were exercisable (769,066 in 1996 and 1,339,786 in 1995) at prices ranging between $18.4062 and $33.50 ($18.4062 and $24.8437 in 1996, and $18.4062 and $24.3437 in 1995). At December 31, 1997, a total of 7,476,577 common shares remained authorized for issuance under this Program. Shares covered by options granted with respect to any year may not exceed 0.5% of the outstanding common shares of the Corporation at the end of the immediately preceding year.

Simultaneously with the grant of an option, the employee may also be granted the right to a special compensation payment (SCP). The amount of any SCP is equal to the increase in market value of the number of the BCE Inc. shares covered by the SCP (which may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCP to the date of exercise of the option to which the SCP is related. SCP's have been granted as follows: 861,900 in 1997, 404,698 in 1996 and 364,590 in 1995. At December 31, 1997, 2,077,929 SCP's covering the same number of shares as the options to which they are related are outstanding.

16. Pensions

The Corporation and most of its significant subsidiary companies maintain non-contributory defined benefit plans that provide for pensions for substantially all their employees based on length of service and rate of pay. BCE's funding policy is to make contributions to its pension funds based on various actuarial cost methods as permitted by pension regulatory bodies. The companies are responsible to adequately fund the plans. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equities, government and corporate bonds, debentures, secured mortgages and real estate.

The cost of pensions is accrued and charged to earnings over employees' working lives. Pension expense was calculated using asset values adjusted to market over periods of up to five years. The weighted average discount rate used in determining the projected plan benefits was 8.3% in 1997 and 8.4% in 1996 and 1995, and the weighted average assumed long-term rate of return on plan assets was 8.4% in 1997 and 8.5% in 1996 and 1995. From 1994 to 1997, adjustments to accrued benefits arising from workforce reduction programs were deferred and amortized over five years in conformity with a CRTC ruling. As a result of the discontinued application of regulatory accounting provisions, the unamortized balance of these pension credits was written-off and included in the extraordinary item (see Note 2).

16. Pensions *(continued)*

The following table sets forth the financial position of the pension plans and BCE's net pension asset:

At December 31	**1997**	1996
Plan assets at market value	**17,244**	15,337
Actuarially projected plan benefits		
Accumulated plan benefits	**12,299**	10,831
Effect of salary projections	**1,597**	1,695
Projected plan benefits	**13,896**	12,526
Plan assets in excess of projected plan benefits	**3,348**	2,811
Unrecognized net experience gains (i)	**(2,495)**	(2,536)
Unrecognized net assets existing at January 1, 1987 (i)	**(56)**	(83)
Unrecognized plan amendments (i)	**141**	189
Net pension asset reflected on the consolidated balance sheet	**938**	381
Deferred pension asset, included in deferred charges	**1,363**	658
Deferred pension obligation, included in other long-term liabilities	**(425)**	(277)
Net pension asset	**938**	381

(i) Amortized over the employees' average remaining working lives (14 years at December 31, 1997).

The components of BCE's pension expense follow:

	1997	1996	1995
Service cost – benefits earned	**343**	308	305
Interest cost on projected plan benefits	**1,084**	1,003	944
Expected return on plan assets	**(1,307)**	(1,095)	(1,043)
Net amortization	**(167)**	(97)	27
Pension expense (credit)	**(47)**	119	233

17. Currency translation adjustment

The net unrealized currency translation adjustment represents accumulated gains or losses on the Corporation's net investments in self-sustaining foreign operations. The effects of exchange rate changes on transactions designated as hedges of net foreign investments are also included therein. The change in the currency translation adjustment during the year ended December 31, 1997 of $79 million mainly resulted from the weakening of the Canadian dollar as compared with the U.S. dollar.

18. Commitments and contingent liabilities

Commitments

At December 31, 1997, the future minimum lease payments under capital leases were $33 million. At December 31, 1997, the future minimum lease payments under operating leases with initial non-cancellable lease terms in excess of one year were $404 million in 1998, $346 million in 1999, $282 million in 2000, $235 million in 2001, $208 million in 2002 and $536 million thereafter. Rental expense applicable to operating leases for the year 1997 was $560 million, $512 million in 1996 and $468 million in 1995.

In 1997, ExpressVu entered into an agreement with Telesat Canada to purchase and operate 17 transponders on a satellite scheduled for launch in the fall of 1998. At December 31, 1997, total commitments for ExpressVu under this agreement amounted to approximately $445 million over a 12 year period.

Litigation

Certain holders of Nortel securities commenced a class action in the United States District Court for the Southern District of New York alleging that Nortel and certain of its officers violated the Securities Exchange Act of 1934 and common law by making material misstatements of, or omitting to state, material facts relating to the business operations and prospects and financial condition of Nortel. At this stage of the action, Nortel cannot determine whether the action will have a material adverse impact on its consolidated financial position or results of operations.

BCI Telecom Holding Inc. (BTH), a wholly-owned subsidiary of BCE Inc., has initiated legal proceedings against Mr. Glenn R. Jones, his wholly-owned subsidiaries, Jones International, Ltd. and Jones Internet Channel, Inc. (collectively, the Jones Entities), as well as Jones Intercable, Inc. (Intercable) to enjoin them from proceeding with the roll out of an Internet access service called the Internet Channel on the basis that this constitutes a procedural and substantive violation of its shareholders agreement and fundamental principles of fiduciary duties. BTH contends that the proposed deal between the Jones Entities and Intercable will lock Intercable into a long term, exclusive arrangement for Internet access services on unreasonable commercial terms which was not negotiated on an arm's length basis. BTH holds a 31.4% equity interest in Intercable and has a control option exercisable from December 20, 2001.

In addition, in the normal course of operations, BCE becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at December 31, 1997, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on BCE's consolidated financial position or results of operations.

Environmental matters

Nortel, primarily as a result of its manufacturing operations, is subject to numerous environmental laws and regulations and is exposed to liabilities and compliance costs arising from its past and current generation, management and disposition of hazardous substances and wastes.

As at December 31, 1997, the accruals on Nortel's consolidated balance sheet for environmental matters, including those referred to below, were US $47 million. Based on information presently available, Nortel's management believes that the existing accruals are sufficient to satisfy probable and reasonably estimable environmental liabilities related to known environmental matters. Any additional liability that may result from these matters, and any additional liabilities that may result in connection with other locations currently under investigation, are not expected to have a material adverse impact on the consolidated financial position or results of operations of Nortel.

Nortel has remedial activities under way at eight of its facilities and seven previously occupied sites. An estimate of Nortel's anticipated remediation costs associated with all such facilities and sites, to the extent probable and reasonably estimable, is included in the environmental accruals referred to above in an approximate amount of US $46 million.

Nortel is also listed as a potentially responsible party (PRP) under the U.S. Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) at six Superfund sites in the United States and is listed as a *de minimis* PRP at three of these Superfund sites. An estimate of Nortel's share of the anticipated remediation costs associated with such Superfund sites is included in the environmental accruals referred to above.

Liability under CERCLA may be imposed on a joint and several basis, without regard to the extent of Nortel's involvement. In addition, the accuracy of Nortel's estimate of environmental liability is affected by several uncertainties such as additional requirements that may be identified in connection with remedial activities, the complexity and evolution of environmental laws and regulations and the identification of presently unknown remediation sites. Consequently, Nortel's liability could be greater than its current estimate.

19. Reconciliation of earnings reported in accordance with Canadian GAAP with United States GAAP

The important differences between Canadian and United States GAAP affecting the consolidated financial statements of BCE are reconciled in the table below. The extraordinary charge (see Note 2) as recorded on a Canadian GAAP basis would not be significantly different from the charge which would result on a United States GAAP basis.

	1997	1996	1995
Net earnings (loss) – Canadian GAAP	**(1,536)**	1,152	782
Adjustments			
Postretirement benefits other than pensions (a)	**(67)**	(62)	(63)
Postemployment benefits (b)	**(6)**	(9)	(28)
Income taxes (c)	**(41)**	(24)	(24)
Income tax benefit related to stock options (d)	**(27)**	–	–
Pension expense (e)	**20**	(21)	–
Foreign exchange (f)	**(17)**	13	44
Other	**(42)**	(34)	(36)
Net earnings (loss) – U.S. GAAP	**(1,716)**	1,015	675
Net earnings (loss) per common share[1] – Canadian GAAP	**(2.53)**	1.70	1.12
– U.S. GAAP (g)			
• Basic	**(2.81)**	1.48	0.94
• Fully diluted	**(2.81)**	1.48	0.94

[1] Reflects the subdivision of common shares on a two-for-one basis on May 14, 1997.

The cumulative effect of differences between Canadian and United States GAAP is to reduce retained earnings by $772 million as at December 31, 1997, $592 million as at December 31, 1996 and $455 million as at December 31, 1995.

(a) **Postretirement benefits other than pensions**

The costs of postretirement benefits other than pensions, such as health and life insurance benefits for retirees, are generally charged to earnings when paid. The Financial Accounting Standards Board (FASB) Statement No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" requires the accrual of actuarially determined postretirement benefit costs as active employees earn these benefits.

In reporting the impact of the adoption of Statement No. 106, the accumulated transitional obligation (i.e., employees' service prior to adopting the new method of accounting effective January 1, 1993) of most of BCE's telecommunications subsidiary and associated companies is amortized over 20 years.

(b) **Postemployment benefits**

The costs of postemployment benefits are generally recognized as the claims are paid. FASB Statement No. 112 "Employers' Accounting for Postemployment Benefits" requires the accrual of the postemployment benefits at the occurrence of an event that renders an employee inactive.

(c) **Income taxes**

Under FASB Statement No. 109 "Accounting for Income Taxes", BCE adjusted its net deferred income tax liability for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, computed based on the rates and provisions of the enacted tax law.

(d) **Income tax benefit related to stock options**

Under Accounting Principles Board No. 25 "Accounting for Stocks Issued to Employees", the tax benefit associated with deductible stock options compensation is treated as an increase in share capital rather than as a reduction in income tax provision.

(e) **Pension expense**

The difference arises from variations in methodology for calculating pension expense, curtailments and settlements under Canadian GAAP as opposed to under FASB Statement No. 87 "Employers' Accounting for Pensions" and FASB Statement No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

19. Reconciliation of earnings reported in accordance with Canadian GAAP with United States GAAP *(continued)*

(f) **Foreign exchange**

Under FASB Statement No. 52 "Foreign Currency Translation", unrealized foreign exchange translation gains and losses on long-term monetary assets and liabilities are reported in earnings immediately rather than deferred and amortized over the remaining lives of the related items.

(g) **Earnings per share**

FASB Statement No. 128 "Earnings Per Share" requires companies to replace the presentation of primary earnings per share (EPS) with a presentation of basic EPS which is consistent with the calculation for Canadian GAAP. The statement also requires dual presentation of basic and fully diluted EPS (which includes the impact of convertible securities and stock options).

20. Subsequent events

Investment in The CGI Group Inc.

On January 5, 1998, BCE purchased 6 million outstanding Class A Subordinate Voting Shares of The CGI Group Inc. (CGI) at a price of $22.98 per share, thereby increasing BCE's consolidated equity ownership from 24% to approximately 34%. In addition, under the terms of an agreement in principle, Bell Canada will sell to CGI its systems development and maintenance operations (both domestic and international) in exchange for Preferred Shares convertible into 8.6 million Class A Subordinate Voting Shares. Under the terms of the agreement in principle, Bell Canada's systems development and maintenance operations will be managed through a separate wholly-owned subsidiary of CGI under a ten-year contract. The agreement in principle would result in the transferring of some 2,300 employees of Bell Canada to CGI. The agreement in principle is subject to due diligence, the completion of definitive agreements, regulatory and other required approvals, and is expected to close by June 30, 1998. Accordingly, the impact of this transaction on BCE's financial statements is subject to uncertainty and cannot be reasonably determined at this time. Following the above, BCE's consolidated equity ownership of CGI would increase to 43% with the potential to increase to 56% over the next eight years, assuming full exercise of the puts and calls detailed below.

As part of the agreement in principle, three shareholders of CGI have the option of gradually selling ("put option") to BCE 8.7 million Class B Multiple Voting Shares (which currently represent majority voting control of CGI) for a period of up to six years. On the sixth anniversary, the multiple voting shares will automatically become single voting shares. For a period of two years after the sixth anniversary, BCE has the option to buy ("call option") all voting shares still held by the three shareholders.

Purchase of Broadband Networks Inc.

On January 9, 1998, Nortel announced the successful completion of its offer to purchase all the issued and outstanding common shares of Broadband Networks Inc. (BNI), a leader in the design and manufacture of fixed broadband wireless communications networks. The aggregate purchase price was approximately US $426 million, comprising approximately US $149 million in cash and approximately 5.6 million of Nortel's common shares. The acquisition will be accounted for using the purchase method of accounting. The allocation of the purchase price will be net tangible assets of US $29 million, purchased R&D assets of US $386 million and goodwill and other assets of US $11 million. The purchased R&D assets will be charged to earnings over a period of less than 12 months principally reflecting the need for further research and development expenditures resulting from the rapid pace of change in broadband wireless technologies and the anticipated integration of BNI's technology into the Nortel product portfolio. Goodwill and other assets will be amortized on a straight-line basis over their estimated useful lives. For purposes of reporting under United States GAAP, the purchased R&D in-process of US $386 million will be written-off immediately.

Sale of real estate properties

Under an agreement dated January 13, 1998, Bell Canada will sell thirteen commercial properties to TrizecHahn Corporation (TrizecHahn). Under terms of the agreement, TrizecHahn will assume property management of the buildings from Bell Canada and will lease back to Bell Canada the space currently occupied. Bell Canada's obligations may gradually decrease over time should Bell Canada vacate premises in accordance with the terms of the lease. The transaction is expected to close in the first quarter of 1998 and will be reflected in the financial statements of BCE at such time. The gain resulting from the transaction will be amortized over the life of the leases. Net proceeds from the sale, of approximately $750 million, will be used to meet outstanding debt maturities and for general corporate purposes.

Selected Consolidated Financial and Other Data

(Unaudited)

	1997	1996	1995	1994	1993	1992
Statement of operations data *($ millions)*						
Revenues	**33,191**	28,167	24,624	21,670	19,827	19,572
Earnings before discontinued operations and extraordinary item	**1,414**	1,152	782	1,178	159	1,486
Loss from discontinued operations	–	–	–	–	(815)	(96)
Extraordinary item	**(2,950)**	–	–	–	–	–
Net earnings (loss)	**(1,536)**	1,152	782	1,178	(656)	1,390
Net earnings (loss) applicable to common shares	**(1,610)**	1,076	695	1,086	(750)	1,295
Balance sheet data *($ millions)*						
Total assets	**40,298**	41,261	38,861	38,193	36,838	36,737
Notes payable	**627**	951	878	1,641	1,950	2,067
Long-term debt (including current portion)	**12,784**	12,586	13,062	11,738	11,135	9,384
Non-controlling interest	**5,611**	4,754	3,812	3,580	3,108	3,553
Preferred shares	**1,700**	1,450	1,250	1,229	1,229	1,229
Common equity	**8,109**	10,522	10,039	10,123	9,694	11,078
Capital expenditures	**3,413**	3,128	2,804	2,811	3,210	3,715
Common share data [(1)]						
Earnings (loss) per common share						
Before discontinued operations and extraordinary item	**2.11**	1.70	1.12	1.76	0.11	2.26
Discontinued operations	–	–	–	–	(1.33)	(0.15)
Extraordinary item	**(4.64)**	–	–	–	–	–
Net earnings (loss)	**(2.53)**	1.70	1.12	1.76	(1.22)	2.11
Dividends declared per common share	**1.36**	1.36	1.36	1.34	1.33	1.30
Equity per common share	**12.75**	16.55	16.00	16.36	15.73	18.14
Return on average common equity	**12.7%** [(2)]	10.6%	7.0%	11.1%	(7.1)%	12.0%
Other data						
Network access services *(thousands)*	**11,190**	10,866	10,593	10,301	10,015	9,768
Number of employees *(thousands)*	**122**	121	121	116	118	124

Quarterly Financial Data (Unaudited)

($ millions except per share amounts)	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
	1997	1996	**1997**	1996	**1997**	1996	**1997**	1996
Revenues	**10,005**	8,463	**7,787**	6,890	**8,092**	6,724	**7,307**	6,090
Operating earnings	**1,541**	1,396	**1,315**	907	**1,061**	885	**933**	890
Net earnings before extraordinary item	**416**	429	**446**	244	**291**	225	**261**	254
Extraordinary item	**(2,950)**	–	–	–	–	–	–	–
Net earnings (loss)	**(2,534)**	429	**446**	244	**291**	225	**261**	254
Net earnings (loss) applicable to common shares	**(2,553)**	410	**428**	226	**273**	206	**242**	234
Earnings (loss) per common share [(1)]								
Before extraordinary item	**0.63**	0.65	**0.67**	0.36	**0.43**	0.33	**0.38**	0.37
Extraordinary item	**(4.64)**	–	–	–	–	–	–	–
Net earnings (loss)	**(4.01)**	0.65	**0.67**	0.36	**0.43**	0.33	**0.38**	0.37
Average number of common shares outstanding *(millions)*	**636.0**	635.7	**636.1**	634.0	**636.1**	631.9	**636.0**	629.3

(1) Adjusted to reflect the BCE two-for-one stock split effective May 14, 1997
(2) Before extraordinary item

Shareholder Information

Price range of common shares†

	1997			1996		
	High	Low	Close	High	Low	Close
Toronto Stock Exchange ($)	**48.75**	**30.78**	**47.65**	34.48	23.50	32.65
NYSE Consolidated tape ($US)	**34**	**22**	**33 5/16**	25 3/8	17 1/4	23 7/8

In 1996, the TSE moved from fractional price measurement to decimal format.

Average daily trading volumes†

(000)	1997	1996
Toronto	**1,580**	1,271
Montreal	**226**	245
NYSE Consolidated tape	**276**	339

Dividends on common shares*†

Record Date	Payment Date
March 13, 1998	April 15, 1998
June 15, 1998	July 15, 1998
September 15, 1998	October 15, 1998
December 15, 1998	January 15, 1999

* Subject to approval by the Board of Directors.

Dividends paid†

Since 1995, quarterly dividends of $0.34 per common share have been paid.

Number of shares and shareholders

At December 31, 1997, there were 635,949,923 BCE common shares outstanding and 203,361 registered common shareholders, and 68,000,000 preferred shares outstanding, and 781 registered preferred shareholders.

Special services for shareholders

1) Join BCE's Dividend Reinvestment and Stock Purchase Plan and increase your investment in BCE common shares without brokerage costs.
2) Avoid postal delays and trips to the bank by joining BCE's bank deposit program for your dividends.
3) Help BCE control costs and eliminate duplicate mailings by consolidating your accounts.

For more information, contact Montreal Trust:
1 800 561-0934 (toll free in Canada and the U.S.)
982-7555 in the Montreal area

1998 Annual and Special Meeting

The annual and special meeting of BCE shareholders will take place at 10:30 a.m., Wednesday, May 6, 1998, at Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario.

† Adjusted to reflect the BCE two-for-one stock split effective May 14, 1997.

Estate and succession duties

There are no estate taxes or succession duties imposed by Canada or by any province of Canada.

Canadian withholding taxes on foreign investors

Dividends on BCE shares paid or credited to non-residents of Canada are subject to withholding tax at 25%, unless reduced by treaty. Under current tax treaties, U.S. and U.K. residents' withholding tax rate is 15%.
If you have questions concerning withholding taxes, please contact BCE Investor Relations:
1 800 339-6353 (toll free in Canada and the U.S.)
397-7114 in the Montreal area
Fax: (514) 397-7321

Foreign ownership of BCE shares

In order to maintain the eligibility of its Canadian common carrier subsidiaries under the Telecommunications Act, BCE has certain powers to limit foreign ownership to no more than one-third of all of its outstanding voting shares. At December 31, 1997, foreign ownership of BCE common shares was some 11%.

Transfer offices and registrar for shares

Canada, Montreal Trust Company:
1 800 561-0934 (toll free in Canada and the U.S.)
982-7555 in the Montreal area
New York, Bank of Montreal Trust Company: (212) 701-7650
London, The R-M Trust Company: (44) 181 478 1888

Stock exchange listings

Montreal, Toronto, Vancouver, New York, London and the Swiss Exchange.

Corporate documents

Corporate documents are available by mail from BCE Inc., 1000, rue de La Gauchetière Ouest, Bureau 3700, Montréal (Québec) H3B 4Y7, or by telephone at 397-7114 in the Montreal area or 1 800 339-6353 (toll free in Canada and the U. S.), or by e-mail at rhonda.baron@sympatico.ca. Documents available are annual and quarterly reports, news releases, stock quote data, annual information forms, notices of meetings and management proxy circulars, quarterly management's discussion and analysis, and quarterly supplemental information for analysts. Most of these documents can also be found on our Web site: www.bce.ca

Board of Directors

L.R. Wilson, O.C.
Montreal, Quebec
Chairman and Chief Executive Officer, BCE Inc.
A director from May 1985 to September 1989 and since November 1990.
A member of the Pension Fund Policy Committee. Chairman of Bell Canada and a director of Northern Telecom Limited, BCE Mobile Communications Inc., Bell Canada International Inc. and Teleglobe Inc.

Jean C. Monty, C.M.
Montreal, Quebec
President and Chief Operating Officer, BCE Inc.
A director from May 1991 to September 1992 and since October 1997.
A member of the Pension Fund Policy Committee. A director of Bell Canada, Northern Telecom Limited, BCE Mobile Communications Inc., Bell Canada International Inc., Telesat Canada, Cable & Wireless Communications plc, ICL PLC and Teleglobe Inc.

Ralph M. Barford
Toronto, Ontario
President, Valleydene Corporation Limited
A director since April 1987. Chairman of the Management Resources and Nominating Committee. A director of Bell Canada and Northern Telecom Limited.

Warren Chippindale, F.C.A., C.M.
Mont-Tremblant, Quebec
Company director
A director since May 1986. Chairman of the Audit Committee.
A director of Bell Canada and BCE Mobile Communications Inc.

Richard J. Currie, C.M.
Toronto, Ontario
President and a director, George Weston Limited
A director since May 1995. A member of the Management Resources and Nominating Committee.

Jeannine Guillevin Wood, O.C.
Montreal, Quebec
Chairman of the Board, Laurentian Bank of Canada
A director since May 1989. A member of the Audit Committee.
A director of Bell Canada.

Gerald J. Maier
Calgary, Alberta
Chairman of the Board, TransCanada PipeLines Limited
A director since January 1987. A member of the Management Resources and Nominating Committee.

John H. McArthur
Wayland, Massachusetts
Dean Emeritus
Harvard University Graduate School of Business Administration
A director since May 1995. A member of the Audit Committee.

J. Edward Newall, O.C.
Calgary, Alberta
Vice-Chairman and Chief Executive Officer, NOVA Corporation Ltd.
A director since May 1989. A member of the Management Resources and Nominating Committee. A director of Bell Canada International Inc.

Guy Saint-Pierre, O.C.
Montreal, Quebec
Chairman of the Board, SNC-Lavalin Group Inc.
A director since May 1995. A member of the Audit Committee.

Victor L. Young, O.C.
St. John's, Newfoundland
Chairman and Chief Executive Officer,
Fishery Products International Limited
A director since May 1995. Chairman of the Pension Fund Policy Committee.

Members of Committees of the Board

Audit	Management Resources and Nominating	Pension Fund Policy
W. Chippindale Chairman	R.M. Barford Chairman	V.L. Young Chairman
J. Guillevin Wood J.H. McArthur G. Saint-Pierre	R.J. Currie G.J. Maier J.E. Newall	J.C. Monty L.R. Wilson

Committees of the Board

BCE has established permanent committees of the Board of Directors to permit continuing review in the areas of auditing, management resources and nominating, and pension fund policy.

The Audit Committee reviews, reports and, where appropriate, provides recommendations to the Board on: the annual and interim consolidated financial statements and the integrity of the financial reporting of the Corporation; the adequacy of the Corporation's processes for identifying and managing risk; the adequacy of its internal control system; the adequacy of its processes for complying with laws and regulations; the appropriateness of, and compliance with, the policies and practices of the Corporation relating to business ethics; the appointment, terms of engagement and proposed fees of the shareholders' auditor; the appointment and mandate of the internal auditor; the relationship between related entities' audit committees and that of the Corporation; and the relationship between the Audit Committee, other standing committees of the Board of Directors and management. BCE's Audit Committee consists entirely of unrelated directors, i.e., directors who are not officers of BCE or its subsidiaries and who are not otherwise related to the Corporation. The Audit Committee met five times during 1997.

The Management Resources and Nominating Committee (MRNC) reviews, reports and, where appropriate, provides recommendations to the Board on: candidates for election to the Board of Directors; the appointment of the Chief Executive Officer; directors' remuneration in relation to current compensation practices; existing management resources and succession plans for officers and other ranks; the performance of the Chief Executive Officer and other officers; the Corporation's executive compensation policy; any proposed changes in organization, or to the Corporation's pension and benefit plans; and matters of corporate governance. The MRNC also establishes management performance criteria and undertakes periodic surveys of all directors to allow each director to assess the effectiveness of the Board as well as to appraise his or her own participation on the Board. It reports to the Board periodically on the Board's assessment of its effectiveness. It also assists newly appointed Board members in becoming acquainted with the Corporation and its governance process. All members of the committee are unrelated directors. The MRNC met five times during 1997.

The Pension Fund Policy Committee (PFPC) advises the Board of Directors on policy with respect to the administration, funding and investment of the Corporation's pension plan and the unitized pooled fund sponsored by the Corporation for the collective investment of the Corporation's pension fund and participating subsidiaries' pension funds (the "Master Fund"). The PFPC also generally oversees the administration and investment policies of the Corporation's pension plan and Master Fund. The chairman of the PFPC is an unrelated director. The PFPC met twice in 1997.

Corporate Officers

L.R. Wilson
Chairman and
Chief Executive Officer

Jean C. Monty
President and
Chief Operating Officer

Peter J.M. Nicholson
Executive Vice-President,
Corporate Strategy

Thomas J. Bourke
Group Vice-President,
Directories

William D. Anderson
Senior Vice-President,
Finance

Josef J. Fridman
Senior Vice-President,
Law and Corporate Secretary

Michael Conway
Vice-President and Comptroller

Pierre N. Lessard
Vice-President and Treasurer

Barry W. Pickford
Vice-President, Taxation

Peter M. Sharpe
Vice-President,
Corporate Services

Departmental Executive

Josie Ciccotelli
Assistant Vice-President,
International Taxation

Marc Girard
Assistant Treasurer,
Corporate

Howard N. Hendrick
Assistant Treasurer,
Investor Relations

Andrea LeBlanc
Assistant Vice-President,
Taxation

Donald W. MacKeigan
Assistant Comptroller,
Planning

Leonard F. Ruggins
Assistant Treasurer,
Financing

Marc J. Ryan
General Counsel

Ida Teoli
Assistant Vice-President,
Corporate Communications

Patsy Willett
Assistant Comptroller,
Reporting and Compliance

Corporate Directory

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Shareholder account
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1998 Annual Meeting

The annual and special meeting of BCE shareholders will take place at 10:30 a.m., Wednesday, May 6, 1998 at Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario.

Visit BCE at its Web site! www.bce.ca

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